Ontario

OFFICE OF THE PROVINCIAL AUDITOR

# 1990 ANNUAL REPORT

91-03965/

OFFICE OF THE PROVINCIAL AUDITOR

To the Honourable
Speaker of the Assembly
Province of Ontario

I am pleased to transmit my report covering audits completed through August 31, 1990, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, November 27, 1990.

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CHAPTER

# 1

# MATTERS OF SPECIAL INTEREST

# CHAPTER 1
# MATTERS OF SPECIAL INTEREST

## 1.1 Scope of Audit Activity

The Province's revenue and expenditure for the fiscal year ended March 31, 1990 totalled $41.7 billion and $41.6 billion, respectively. Over 25 ministries were involved in the administration of hundreds of revenue and expenditure programs and in the operation of associated financial and information systems.

The size and complexity of Government preclude an audit of all operations on an annual basis. Accordingly, each year, the Office audits a selection of programs and systems that individually expend over $40 million annually, so that over a five-year period management's administration of all major operations is considered for review. This year, we audited 14 major programs/activities in 8 different ministries, primarily for value for money. As well, inspection audits of transfer payments to a university, a public hospital and two school boards were completed. Additionally, we carried out three cross-ministry audits: collection procedures, expenditure controls and vehicle fleet administration.

The Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

Government policies, or submissions prepared by management for policy development, are not subject to audit. (Section 5.3)

## 1.2 Overall Assessment

In arriving at an overall assessment of the administrative performance of Government, we draw on a variety of sources. These sources include the audits of major programs and activities of ministries and agencies conducted during the current year, the body of knowledge that we as an Office have accumulated over our years of auditing Government administration, and our observations of the ongoing changes in the quality of administration.

During the 1980s there has been an increasing public demand for more and better Government services and also a growing concern about the escalation in Government expenditures and the size of the Province's debt.

In response to these pressures and concerns, the Government has had to find more efficient and effective ways to administer its programs and services. We believe that the Government has made significant headway in this challenge. However, as the various findings in the following chapters illustrate, there is still considerable room for improvement.

Nevertheless, our overall opinion continues to be that the Government of Ontario is being satisfactorily administered. More specifically, we believe that the quality of administration has been maintained at a 7 out of 10 level.

We received all the information and explanations required, and we wish to express our appreciation to those who were helpful and cooperative in this regard.

## Matters of Special Interest

### 1.3 Basis of Reporting

This Report is provided in accordance with section 12(2) of the Audit Act. Under the Act, the Auditor is required to bring to the attention of the Legislative Assembly instances where he has observed significant deficiencies in Government administration.

To provide better support to the Assembly in its role of holding the Government accountable, we attempt to go beyond this basic requirement. We try to assess, where possible, how well a particular Government function is being administered and to support that assessment with specific observations and comments. This enables us to report observed matters in the context of a conclusion on the overall quality of administration in the audited activities.

There is a perception that in pursuing our mandate to report deficiencies, we place too little emphasis on the many areas where we have not observed any significant irregularities. That is to some extent an unavoidable consequence of our reporting requirements. However, we endeavour to report our findings in the proper context. Accordingly, we frequently draw attention to the positive examples of Government administration noted during our audits.

The Annual Report contains the most significant results of our examinations of selected ministries and agencies. Our choice is based not only on the significance of the dollar value involved but also on the importance of a particular matter or issue to the Legislature (Section 5.7). Some purely informational comments are also included in the Report because we believe the matters should be brought to the attention of the Assembly.

### 1.4 Report Synopsis

#### Introduction

The purpose of this section is to provide readers with an overview of the comments in Chapters 2 and 3. The summaries are very brief; readers are encouraged to refer to the complete text as indicated by the section references.

#### Update on Accountability for Transfer Payments

In 1988, the Management Board Secretariat issued a Directive on Transfer Payment Accountability to provide for the establishment of effective frameworks within which ministries could account for their management of public funds. All these accountability frameworks have now been submitted by the ministries and reviewed by the Secretariat.

Over the next three fiscal years, ministries' internal audit branches are to audit the frameworks for compliance with the Directive, and ministries are to report annually to the Secretariat on these audits. Through our regular ministry audit activities and contacts with the Management Board Secretariat we will continue to review progress being made in enhancing transfer payment accountability. (Section 2.2)

# Report Synopsis

## The Estimates Review Process in Transition

In 1989, the Legislature amended the Standing Orders to provide for the establishment of a Standing Committee on Estimates. Five 1989/90 Estimates were reviewed by the Committee; 12 1990/91 Estimates were selected for review.

Management Board Secretariat examined the briefing books prepared by the ministries for the 1989/90 review and committed itself to reviewing the 1990/91 books with a view to improving and refining the guideline instructions for the 1991/92 Estimates process. (Section 2.3)

## Government Deficits

Section 2.4 of last year's Report outlined the divergent views on the desirability of governments accumulating deficits. The purpose of this year's section is to provide an informational update. (Section 2.4)

## Cross-ministry Audits

We audited the administration, across several ministries, of the collection of accounts receivable and the use of Government vehicles.

*Collection of Accounts Receivable*

In the ministries audited, collection efforts were less than satisfactory. Pursuing debtors was not a high priority. At the Central Collection Service Unit of the Ministry of Government Services, collection effort was generally commendable, in contrast to the Motor Vehicles Accident Claims Fund where procedures were ineffective. (Section 2.5)

*Fleet Administration*

The option of using a Government or personal vehicle was generally not based on economic considerations. Administration of vehicle maintenance was similarly deficient. (Section 2.6)

## Inspection Audits

In 1990 we conducted inspection audits of one more hospital and university. We also extended our inspection activity to the school board community with audits of two school boards.

*Centenary Hospital*

We concluded that major improvements were required in the accounting records and related procedures for non-payroll expenditures, e.g. equipment and supplies. Accounting records and related procedures for payroll expenditures were satisfactory. (Section 2.7)

*University of Toronto*

We found reported enrolment data for the 1989 fiscal year to be accurate and in compliance with established guidelines. However, control over movable assets was unsatisfactory, and although policies and procedures to encourage

economical and competitive purchasing were sound they were often not followed. Payment practices were satisfactory. (Section 2.8)

*Other Matters, University of Toronto, Ministry of Colleges and Universities*

For at least the last ten years, the University's special funding arrangement has provided it with significantly more funding per Arts and Science student than other universities. Also, the claiming of students taking Commerce program prerequisite courses as Commerce students may be inequitable. (Section 2.9)

*Lakehead Board of Education*

Most of the weaknesses we found in our examination of financial management and control related to a failure to follow established policies and procedures. Our concerns included the administration of school transportation contracts, the budgeting process and the application of the school closure policy. (Section 2.11)

*York Region Roman Catholic Separate School Board*

High growth in recent years no doubt contributed to many of the deficiencies noted. We found, for example, that purchasing procedures were not adequate, in particular the awarding of school bus contracts. In addition, some Ministry grants were not spent for the purpose intended. (Section 2.12)

*Financial Accountability Framework for Grants to School Boards, Ministry of Education*

Sound plans developed for improving the financial accountability of school boards will not be effective without better co-ordination and monitoring by the Ministry. For example, reviews and audits of student enrolment and transportation data should be more consistent and productive.

Most school boards surveyed reported that they had adequate accountability arrangements between trustees and administrators.

We believe more commitment to the sharing of resources among boards is needed, as is attention to the under-utilization of schools and associated closure policies. (Section 3.6)

## Central Common Services

Two of our audits related to services provided by the Ministry of Government Services to other Government ministries and agencies.

*Toronto Development Centre*

The Centre provided reliable computer processing services to its customers, but security measures to prevent unauthorized access to computer facilities were not sufficient. (Section 3.7)

## Report Synopsis

*Management of Land Acquisition and Capital Construction*

In general we found all functions examined were satisfactorily administered. Within that context, however, some significant deficiencies were noted. In several instances, for example, assessments of work to be completed were inadequate. (Section 3.8)

### Care Delivery Programs

This year, eight of our audits involved various types of care provided or funded by ministries and agencies. **Three of these were administered by the Ministry of Community and Social Services:**

*Facilities for the Developmentally Handicapped*

Two audits covered Ministry operated and Agency operated facilities. Our conclusions were essentially the same. In our opinion, the Ministry did not take adequate steps to ensure that funds were well spent or that proper care and services were delivered. (Sections 3.2 and 3.3)

*Homes for the Aged*

We concluded that Ministry procedures for monitoring the quality of care in these homes were inadequate. For example, inspection activity was infrequent and poorly documented. (Section 3.4)

**Four of these audits examined Ministry of Health programs:**

*Nursing Home Services*

We concluded that the procedures used by the Ministry to monitor the quality of care in nursing homes required significant improvement. The number and nature of cases selected for in-depth quality of care reviews, for example, were inadequate. Also, many complaints were not investigated on a timely basis. (Section 3.9)

*Access to Extended Care Beds*

There were significant delays in placing individuals in extended care beds. Guidelines for assessing the adequacy of the total supply of these beds had not been revised since 1972. (Section 3.10)

*Home Care Assistance*

Generally, Home Care was being provided economically, although there was scope for improvement in delivering certain aspects of assistance. For example, many services provided by nurses could be delegated to nursing assistants.

Home Care could play a more important role in the delivery of health care services throughout the Province. It was estimated that 15 to 30 per cent of hospital patients could be cared for at home. (Section 3.11)

## Matters of Special Interest

*OHIP Billings, Provider Services Branch*

The Branch was adequately monitoring OHIP billings, but conditions inherent in the system reduced the effectiveness of monitoring procedures. For example, over the past few years the number of doctors and services has increased faster than the population. Also, there has been a trend towards higher fee services. (Section 3.13)

**The eighth audit concerned the Ontario Cancer Treatment and Research Foundation:**

*Overseas Recruitment Expenditure*

We concluded that much of the expenditure incurred to recruit radiation therapy technologists was either excessive or questionable. Additionally, advertising and promotional services were acquired without a competitive selection process. (Section 3.18)

### Information Technology

Three audits conducted in ministries related to their management of computer resources.

*Management Information Systems, Ministry of Correctional Services*

For the most part, computer resources were acquired economically and used efficiently. However, computer software and sensitive data were not adequately protected from unauthorized access. (Section 3.5)

*Information Technology Consultants, Ministry of Health*

Overall, the Information and Systems Division adhered to Government policies and procedures in the acquisition of consulting services. However, its continued reliance on some consultants was uneconomic and in conflict with Management Board Directives. (Section 3.12)

*Information Technology Purchases, Ministry of Intergovernmental Affairs*

Most goods and services were purchased in accordance with Ministry and Government policy. However, we found several deficiencies in the planning and cost-benefit evaluations which preceded the purchase of information technology. (Section 3.14)

### Other Audits

*Ontario Provincial Police Field Operations and Quartermaster Stores, Ministry of the Solicitor General*

While the assignment and utilization of field staff were satisfactory, there were opportunities for improvement. For example, time spent by officers on administrative duty could be reduced through increased use of civilian staff and a more efficient reporting system.

Quartermaster Stores procedures, in particular the security over weapons, had greatly improved since our previous audit in 1985. (Section 3.15)

*Inspection Activity and Other Matters, Liquor Licence Board of Ontario*

Inspection activity was less than satisfactory to ensure compliance by licensees with the Liquor Licence Act and Regulation. Inspectors, for example, spent only 20 per cent of their time on their primary role of inspection.

Collection procedures for licence fees were adequate overall; however, potential areas for increased revenues were identified. (Section 3.16)

*Travel and Accommodation Costs, Office of the Assembly*

Expenses of MPPs and committees were adequately supported, and claims were in accordance with entitlements or established policies. However, vehicle travel could have been more economical. (Section 3.17)

*Safeguarding of Valuables, the Public Trustee of the Province of Ontario*

Access to valuables in safekeeping was not adequately restricted. Valuables held in trust were missing and the police were investigating. (Section 3.19)

## 1.5 Reacting to Concerns

The Office of the Provincial Auditor can be contacted by anyone who has concerns about wasteful or inappropriate use of resources in the administration of Ontario Government programs.

Information received will be treated confidentially and considered for appropriate action or investigation. Any significant findings resulting from investigations undertaken will be included in subsequent Annual Reports to the Legislature.

Contact may be made by telephone at (416) 974-9866 or 1-800-668-8516, by facsimile (416) 324-7012 or by writing to :

Office of the Provincial Auditor,
Box 105, 20 Dundas Street West,
Toronto, Ontario.
M5G 2C2

CHAPTER

# 2

# COMMENTS ON CROSS-MINISTRY AND SPECIAL AUDITS

# CHAPTER 2
# COMMENTS ON CROSS-MINISTRY AND SPECIAL AUDITS

## 2.1 Introduction

Comments contained in this segment of the Report result from cross-ministry and special audits. A list of all audits completed since our last Report is included in Exhibit 1.

## 2.2 Update on Accountability for Transfer Payments

*INTRODUCTION*

Transfer payments exceed 70 per cent of the annual Provincial expenditures. In light of the magnitude of such payments, we have been especially concerned with the need for improved accountability for the funds.

The Government directly controls transfer payments which are made to individuals, or to others such as physicians or pharmacists providing services to the public. In the 1990 fiscal year such payments amounted to $8.1 billion, or approximately one quarter of total transfer payments of $30.5 billion. However, the Government does not directly control the use, safeguarding or expenditure of the other three quarters of the funds, which represent transfer payments to intermediary organizations or bodies providing services to the public (e.g. hospitals, school boards, universities).

In our Annual Reports in the 1980s we included information on various accountability for transfer payment matters, and in this year's Report we update the status of the current initiatives.

*DIRECTIVE ON TRANSFER PAYMENT ACCOUNTABILITY*

The purpose of the Directive, issued in 1988 by the Management Board Secretariat (the Secretariat), is to establish an effective framework for transfer payment recipients to account for their management of public funds.

The mandatory requirements of the Directive involve an accountability process that must clearly set out the planned objectives and results that the recipient is to achieve with the transfer payments, and ensure that the recipient:

- understands or agrees with these objectives and results;
- reports the achievement of objectives and results on a timely basis; and
- takes corrective action when objectives and results are not being achieved.

The ministries are to ensure that accountability processes that meet the mandatory requirements of the Directive are in place and are maintained. The Secretariat is responsible for assisting ministries in the development and maintenance of accountability frameworks. The Secretariat co-ordinated the development of a companion Guideline, to assist the ministries in implementing the Directive, and requested ministries to develop a proposed accountability framework for each transfer payment program.

## Comments on Cross-Ministry and Special Audits

*ACCOUNTABILITY FRAMEWORKS - DEVELOPMENT, IMPLEMENTATION AND REVIEW*

All accountability frameworks have now been submitted by the ministries and have been reviewed by the Secretariat. The submissions contained the key components of setting expectations (objectives and results), contracting (the understanding between the ministry and the transfer payment recipient), and reporting. In October 1989 the accountability frameworks relating to 21 of the largest transfer payment programs, representing approximately 80 per cent of total Provincial transfer payments, were approved by Cabinet.

In November 1989 the Secretariat requested ministries to have their internal audit branches, over the next three fiscal years (1991 to 1993), audit all transfer payment accountability frameworks for compliance with the Directive on Transfer Payment Accountability. In April 1990 the Secretariat issued an audit review guide for the Directive.

The Secretariat also requested ministries to report annually whether the Directive on Transfer Payment Accountability had been audited. The reports are to indicate any difficulties encountered in achieving compliance with the Directive, including any concerns with the effectiveness of the Directive. The first annual reports are due June 30, 1991 and are to be based on audit reports issued in the 1991 fiscal year. Through review of the annual reports the Secretariat will observe the progress of the ministries in auditing their accountability frameworks over the next three years. The Secretariat will report the results of this initiative to Cabinet.

An advisory group on transfer payment accountability, comprised of representatives from the Secretariat and ministries with significant transfer payments, provides continuing advice to the Secretariat on transfer payment accountability. The advisory group has identified several areas for attention and presently is concentrating on reporting requirements and methods.

*OTHER ACCOUNTABILITY ASPECTS*

In October 1989 the Secretariat and the Institute of Public Administration of Canada co-sponsored a forum on transfer payment accountability. Senior Provincial and transfer payment agency officials discussed the setting, and the meeting, of expectations. Generally, the speakers emphasized the importance of consultation in setting expectations, the need for effective joint planning mechanisms and clarity of roles and expectations.

The Municipal Audit Bureau (audits transfer payments to municipalities) has drafted guidelines relating to the establishment and administration of municipal transfer payment programs. The guidelines will provide support to persons drafting municipal grant legislation, assist administrators in improving the day-to-day processing of applications and claims, and enhance municipal transfer payment program compliance and accountability.

The Secretariat continues, through research and communication with ministry and other interested officials, to promote an improved understanding of, and better methods for, transfer payment accountability. For example, meetings with ministry officials involved in policy and planning are scheduled. This will

provide an opportunity to identify methods used by ministries for building accountability requirements into the initial design and planning of transfer payment programs.

*COMMENTARY*

Enhancing transfer payment accountability is presently focused on the development and implementation of accountability frameworks. Although the process primarily involves improving and refining previously existing accountability conditions, it is still a ponderous task fraught with difficulties.

Complications can arise in trying to balance the Government's need for accountability with the recipient's preference for autonomy in the use of the transfer payments. To clearly define the expectations and the respective roles and responsibilities of the ministries/agencies and their transfer payment recipients requires considerable time and effort, understanding and compromise.

Standard expectations, uniformly applicable to all transfer payments, cannot be established because of the great diversity in the nature of the transfer payment programs and the accountability relationships between the ministries/agencies and their recipients. Realistic performance expectations, based on the conditions uniquely applicable to a particular transfer payment, must be agreed upon by the ministry/agency and the recipient.

Objectives and results must be clearly defined and mechanisms for funding approved. To provide accurate, timely and appropriate data to measure the achievement of expectations, accounting and information systems must be established or refined. Also, agreement must be reached on the corrective action to be taken when objectives and results are not met.

The ministries/agencies and their transfer payment recipients recognize that a continued commitment is required to achieve enhancements in accountability, and that diligence and perseverance over an extended period of time is necessary to effect a meaningful and auditable process.

Through our regular ministry audit activities and contacts with the Management Board Secretariat we will continue to review progress being made in enhancing transfer payment accountability.

## 2.3 The Estimates Review Process in Transition

*PROCEDURAL CHANGES*

### Background

As mentioned in Section 2.3 of our 1989 Report, the Standing Orders of the Legislative Assembly (rules of the House) were amended on July 25, 1989 to effect major legislative reforms. One of these reforms was the revision of the Estimates review process which became effective October 10, 1989.

Under the new procedures all Estimates are referred to the newly established Standing Committee on Estimates, which is chaired by an opposition member. The Committee would normally consider the Estimates of not fewer than six and not more than twelve ministries/offices annually. The Estimates to be considered are selected in two rounds, with each of the three major political parties choosing one or two ministries/offices in each round. A maximum of 15 hours discussion time is allocated to each party in each of the two rounds.

Any Estimates not selected for consideration are deemed to be passed by the Committee, whereas the selected Estimates must be passed by the Committee and then be reported to the House by the third Thursday in November. A progressive feature of the new Estimates procedure is that Estimates briefing books provided to the Committee members must now include more detailed information such as growth rates, interim expenditure for the previous fiscal year, and an explanation of the programs and funding by particular item.

### Estimates Review Activity

The Standing Committee on Estimates selected five 1989/90 Estimates for review: the Ministries of the Environment, Municipal Affairs and Transportation, and the Offices Responsible for Disabled Persons and Senior Citizens' Affairs.

Forty hours were allocated for the consideration of the 1989/90 Estimates. After considering the Estimates of the above ministries/offices for 23 hours, the Committee reported the Estimates to the House on November 16, 1989. On December 19, 1989 the House formally approved the granting of supply for each of these ministries/offices.

The Committee selected the 1990/91 Estimates of 12 ministries/offices for review. The Committee had completed the review of the Estimates of the Ministry of Natural Resources before its activities were ended by the dissolution of the Assembly on July 30, 1990.

*IMPROVEMENTS IN ESTIMATES BRIEFING BOOKS*

Following the 1989/90 Estimates reviews by the Committee, the Management Board Secretariat undertook to assess the adequacy of the guidelines for preparing the Estimates briefing books, in order to ensure that the informational requirements of the new Estimates procedure were addressed. In this regard, the

## The Estimates Review Process

Secretariat examined the briefing books prepared by ministries/offices in support of their 1989/90 Estimates. The examination showed significant disparities in the style and content of the documents.

To ensure consistency in format and content and the disclosure of more meaningful information, revised general guidelines for the preparation of the 1990/91 Estimates briefing books were issued by the Secretariat in March 1990. Changes to the general guidelines included:

- improved descriptions of the mandate, purpose or objectives of the Program or Activities within the Program;
- a status report on initiatives under way for each major Activity;
- financial analyses of Activities including explanations for significant expenditure changes;
- a listing of major capital projects showing the funding allocation, timeframe, and expected results for each project.

The Secretariat has committed itself to a review of the 1990/91 Estimates briefing books, with a view to improving and refining the guideline instructions for the 1991/92 Estimates process.

*COMMENTARY*

The procedural changes made in the Estimates review process have been positive. However, there is still some difficulty being experienced in implementing the new procedures after so many years with the former procedures. It may take some time, therefore, to achieve the meaningful and effective scrutiny for which the new procedures were designed.

## 2.4 Commentary on Government Deficits

*INTRODUCTION*

In Section 2.4 of our 1989 Report we reported on various factors associated with government deficits. The purpose of this year's section is to provide an informational update only.

*DEFINITION*

A government's deficit represents its excess of expenditure over revenue in any given year. Alternatively, a surplus represents the excess of revenue over expenditure. A government's accumulated deficit equals the total of annual deficits, less surpluses.

When government expenditures continue to exceed revenue, cash balances are drawn down and borrowing is required. All such borrowing constitutes a government's debt.

*EFFECT OF DEFICITS*

As described in last year's Report, there are divergent views on the desirability of deficits and accumulated deficits. However, there is general agreement on the need for governments to carefully monitor and control any deficit situation. Governments should, for example, be concerned that the growth in the accumulated deficit does not outpace the growth in the economy.

Such a situation would lead to greater borrowing by government and, over time, to a considerably higher debt level. This would necessitate an ever increasing percentage of a government's revenues to be earmarked for debt carrying charges (interest), thus making it more difficult to maintain existing levels of service or to introduce new spending programs.

A personal corollary may be made here. If an individual's economic growth (i.e. increase in income) does not keep pace with the growth of his/her debt, then the debt becomes increasingly difficult to manage.

The table below summarizes recent Ontario experience.

| | 1990 | 1989 |
|---|---|---|
| | ($ millions) | |
| Deficit/(Surplus) | (90) | 1,479 |
| Accumulated Deficit | 35,409 | 35,499 |
| Debt for Provincial Purposes | 39,256 | 39,014 |
| Interest on Debt | 4,284 | 4,032 |

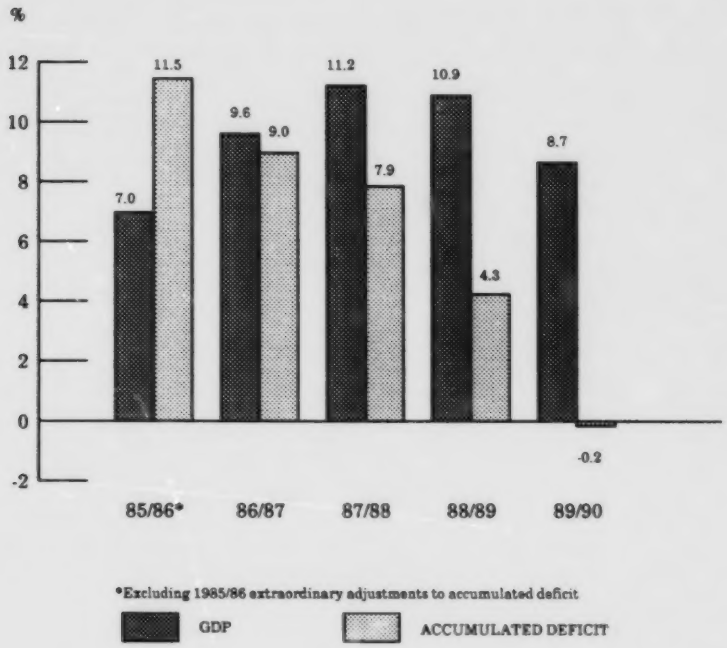
# Government Deficits

*PERFORMANCE INDICATORS*

As is evident from the following indicators, Ontario is endeavouring to effectively manage its deficit position.

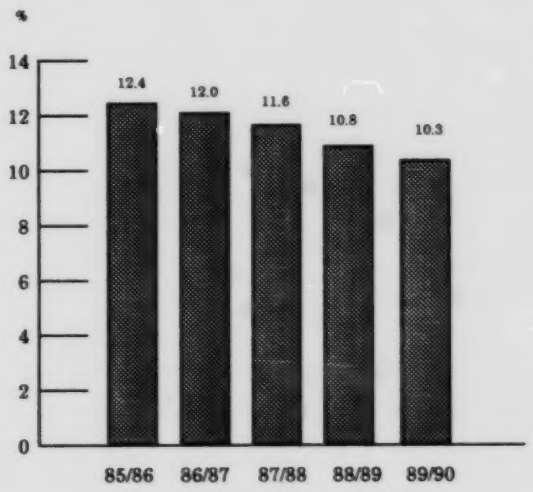
Ontario's recent economic growth (as measured by the growth in the gross domestic product [GDP] ) continues to exceed the growth of the accumulated deficit.

**COMPARATIVE GROWTH**
**ONTARIO GDP AND ACCUMULATED DEFICIT**
**1985/86 to 1989/90**



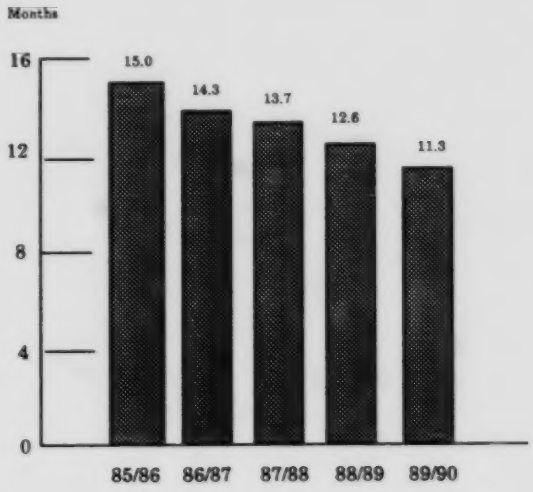
Debt interest as a percentage of revenue continues to decline.

**DEBT INTEREST AS A PERCENT OF REVENUE 1985/86 to 1989/90**




The number of months of revenue to repay Ontario's debt also continues to decline.

**MONTHS OF REVENUE TO REPAY ONTARIO'S DEBT 1985/86 to 1989/90**



## Government Accounts Receivable

### CREDIT RATING

Bond rating agencies in Canada and the United States develop bond rating scales for securities issued by various governments. The ratings vary from triple A for highly-rated investments to D for investments rated as low quality. Ontario continues to receive very high ratings, from double A to triple A.

For further comment on the deficit see Section 4.4.

## 2.5 Observations on Government Collections of Accounts Receivable

Total outstanding accounts receivable, excluding loans and advances, recorded in the Province's Public Accounts amounted to approximately $1.1 billion at March 31, 1990.

### SUMMARY

#### SCOPE AND OBJECTIVE

As part of our examination of accounts receivable write-offs at five ministries (see Section 4.6 of this Report), we also assessed whether collection efforts on overdue accounts were adequate and effective. In addition to these ministries (Agriculture and Food; Attorney General; Financial Institutions; Industry, Trade and Technology; Revenue), our audit assessed the activities of the Central Collection Service Unit of the Ministry of Government Services.

#### CONCLUSION AND FINDINGS

**In the ministries audited, collection efforts were less than satisfactory. Pursuing debtors was not a high priority. In addition:**

- **At the Central Collection Service (CCS), while collection effort was generally commendable, some accounts were neglected.**
- **CCS had approximately 11,500 accounts totalling $10.7 million for which no interest charges were accrued.**
- **The Motor Vehicle Accident Claims Fund (MVACF) was ineffective in collecting its delinquent accounts. Collection efforts were virtually discontinued six months after a debtor's driver's licence was suspended.**
- **The collectability of many accounts of the MVACF was questionable. Based on agreed upon repayment terms, many debts will not be fully repaid for 50 to 60 years.**

### BACKGROUND

Accounts receivable mainly represent amounts owing to the Province under various revenue-producing activities. These amounts are not included on the Province's Statement of Financial Position since they are not the result of cash transactions. In addition, certain loans treated as expenditures and considered recoverable grants are also considered as accounts receivable.

Ministry responsibilities for controlling accounts receivable are covered in the Manual of the Office of the Treasury. The primary objective in controlling accounts receivable is to "maximize Provincial cash flows and to minimize losses due to uncollectability." Such accounts are to be "maintained under effective controls and the amounts owed are to be subjected to thorough and exhaustive collection efforts."

The Manual requires that all accounts receivable should be reviewed and followed up for collection at least every 30 days for a period of three months. Amounts outstanding beyond that period generally should be forwarded to the Central Collection Service at the Ministry of Government Services for further action.

**COMMENTARY**

*TIMELY FOLLOW-UP AND BETTER COLLECTION EFFORTS NEEDED*

**In many cases, collection action was untimely or incomplete. We were informed by some ministries that collecting delinquent accounts receivable was not a high priority.** Instead, resources are channelled to delivering their programs and only limited resources are used to collect accounts.

For example, at the Ministry of Industry, Trade and Technology, although the problem was not widespread, some defaulted loans were not acted upon in a timely manner:

a) A company had its loan and accrued interest totalling $116,000 called on May 16, 1988. Since no payment was received, the Ontario Development Corporation sent a registered letter on December 2, 1988 demanding payment within 15 days or legal action would be taken. At the time of our audit (October 1989), there was no further correspondence or documentation of collection efforts on this loan.

   Prompt action increases the likelihood of collecting overdue accounts. We were advised that this file was subsequently sent to the Central Collection Service at the Ministry of Government Services.

b) In another case, the Corporation lost $648,000 while personal guarantees of $400,000 existed. When a bank requested repayment of the loan and a receiver was appointed, the Corporation's Loan Administration Section recommended to the Legal Services Branch that personal guarantees be called along with its loan. While the Corporation's loan was called on September 1, 1988, no attempt was made to act on the personal guarantees. After the completion of our audit, the account was referred to the Central Collection Service which collected $10,000.

   Personal guarantees should be called at the same time as the loan is called. A long delay gives the guarantors time to arrange their finances in such a manner as to make collection difficult.

# Government Accounts Receivable

*CENTRAL COLLECTION SERVICE*

## Overview

Management Board directives state that the collection of delinquent accounts receivable is the responsibility of the Ministry of Government Services through its Central Collection Service Unit. The Unit's function is to:

- evaluate accounts which, following concerted efforts, ministries have been unsuccessful in collecting;
- utilize its expertise to maximize collection of debts owed to the Province; and
- return to ministries those accounts which are uncollectable and recommend write-off.

At July 31, 1989 the Unit was administering 33,000 accounts, totalling $64.4 million. Of these, $15.2 million had been referred to four private collection agencies and $9.1 million had been referred to the Legal Branch of the Ministry of Government Services. The remaining $40.1 million was being handled by the staff of the Unit.

For the year ended March 31, 1989, CCS spent $1.4 million in administration costs to collect $7.8 million from delinquent debtors. In addition, 2,300 accounts, totalling $3.6 million, were recommended for write-off.

## Collection Efforts Need Improvement

The Central Collection Service Unit estimates that approximately 50 per cent of its collections are made in the first six months after receiving the account from a ministry. Collection staff encourage repayment by initially contacting the debtor by telephone or mail.

In our opinion, **much of the Unit's collection success is due to the diligence of its staff. However, we noted some accounts where there was a lack of timely follow-up.** For example:

a) One debtor owing approximately $6,800 in rental arrears made a verbal commitment in January 1989 to make monthly repayments of $100 starting in February 1989. Similarly, another debtor with an outstanding loan for approximately $51,000 informed collection staff on March 15, 1989 that post-dated cheques were forthcoming. As of August 1989, no payments were made by either debtor and there were no further attempts to contact them.

b) Another debtor informed the Collection Service that he would repay an outstanding Ontario Youth Venture Loan for approximately $2,300 by June 1987. There was no follow-up on the account until October 1987, approximately four months later. No payments were ever received and the individual declared bankruptcy in March 1988.

In October 1989, two additional collection staff were hired by the Central Collection Service. These were the only additional staff hired since 1985, despite a 75 per cent increase in the number of accounts handled by the Unit over the same period. The Unit has determined that an ideal number of accounts per staff member is 1,000 at any one time. This would give staff sufficient time to adequately pursue each account. We noted that on average, each of the 11 collection staff was responsible for approximately 1,700 accounts.

We were also concerned with delays in collection by the Ministry's Legal Branch of some accounts forwarded by the Central Collection Service. For example:

a) An outstanding student loan for approximately $6,300 was transferred to the Legal Branch on July 21, 1988. On September 13, the Legal Branch accepted a proposal from the debtor's solicitor for monthly repayments of $50 to $100. This was accepted because of the debtor's financial situation. Although no repayments were made, no further attempt was made to contact the debtor until July 6, 1989, approximately nine months later. At that time, the Legal Branch was unable to locate this individual.

b) An outstanding Youth Venture Loan for approximately $5,500 was transferred to the Legal Branch on January 24, 1989. As of August 1989, no action had been taken on this account.

We were advised that some legal staff would be transferred to the Central Collection Service in 1990. This should improve the collection effort.

### Interest Charges on Overdue Accounts Inconsistent

The Treasury Manual outlines that each ministry is responsible for determining whether interest should be charged on overdue accounts receivable. Where ministries have indicated that interest is to be charged on overdue accounts, the Central Collection Service charges interest until the debt is paid in full.

We found that most overdue accounts had interest provisions. During the 1989 fiscal year, the Central Collection Service Unit collected $1.3 million in interest revenue. However, **there were approximately 11,500 accounts valued at $10.7 million that were not accruing interest.** These included unpaid fines, student grant overpayments, agricultural programs and loan guarantees. Interest on these accounts would have totalled approximately $1 million per year. Based on the Unit's collection success rate, approximately $135,000 has been lost each year.

In our opinion, a central policy should be considered whereby interest is charged on all debts owed to the Government when payment takes an unreasonable length of time.

# Government Accounts Receivable

*MOTOR VEHICLE ACCIDENT CLAIMS FUND*

## Overview

The Motor Vehicle Accident Claims Fund compensates victims of accidents involving uninsured and hit-and-run motorists. Upon payment out of the Fund, the driver's licence of both the owner and driver of the uninsured vehicle are to be suspended until satisfactory repayment arrangements have been made.

Where a payment from the Fund results from a judgement, a writ of seizure and sale is filed and kept in force indefinitely.

As of March 31, 1989, the Fund had $99 million in accounts receivable consisting of approximately 16,000 claims. During that year repayments from debtors totalled $3.4 million while write-offs totalled $11 million.

## Collection Procedures

As a result of concerns raised in our 1984 audit report on the Fund, all delinquent accounts were to be handled by the Central Collection Service rather than private collection agencies.

By October 1985, the Fund transferred approximately $1 million to the Central Collection Service. However, on November 30, 1987, the Fund discontinued its relationship with the Central Collection Service. Since then the Fund has carried out its own collection program.

We reviewed the Fund's collection procedures since discontinuing the use of the Central Collection Service, and noted:

- **Collection procedures did not include enforcing writs of seizure and sale, garnishing wages, accepting settlements less than the full amount of the debt, or interest on delinquent accounts.**

- **There was no skip tracing capability to locate debtors who had moved.** This function is an integral part of any collection program and exists at the Central Collection Service and ministries which have their own collection departments.

- **Where payments had been made out of the Fund by out-of-court settlement, no writs were filed against the debtor.** We were advised that the Fund does not wish to pursue debtors in these circumstances.

- **Other than mailing out reminder notices, there was no collection effort made six months after an individual's driver's licence was suspended.** If repayments had not started by this time, the account was entered into an inactive file. After five years in the inactive file, the account was written off.

### Inadequacy of Write-offs

Of the 16,000 accounts receivable totalling $99 million, 14,000 accounts valued at $75 million were listed as inactive. We had concerns that the Fund had been maintaining accounts where there was little or no hope of collection.

A review of the accounts receivable indicated that, as of March 31, 1989, there was $47.9 million classified as uncollectable. Of this amount, $10.9 million was written off in the 1989 fiscal year and $7.1 million was planned to be written off in the 1990 fiscal year.

**We reviewed the Fund's analysis of the $99 million receivable for 1989 and determined that approximately 50 per cent originated before 1980.** The Fund should review its accounts and consider a one time write-off of all inactive accounts older than ten years.

### Repayment Terms Too Long

The Regulations under the Motor Vehicle Accident Claims Act state that "subject to a minimum of $25, the amount of monthly repayments shall be 10 per cent of the applicant's gross monthly earnings or such other amount as the applicant may propose and the Director shall consider."

We noted some weaknesses in determining the monthly repayment amounts and reinstating the applicant's driver's licence. To illustrate:

- Debtors are required to complete an application for repayment. Since all debtors must sign a consent form permitting the Fund to access personal records, checks such as phone calls and letters to employers could be used to verify the applicant's declaration of income and listed assets.

  We found that the Fund did not verify the financial information provided by the applicant. This could result in an applicant paying less than his/her capability to repay. We were subsequently advised that this is now being done.

- We noted that most debtors pay less than 10 per cent of declared gross earnings. **Based on terms agreed to, many debtors would take 50 to 60 years to repay their debts.**

### Drivers' Licences Not Suspended on a Timely Basis

The Act permits the Fund to suspend a driver's licence 10 days after there is a default in payment. We were informed by management that suspending licences 60 days after default is more reasonable. However, we found that many licences were still not suspended after 60 days. In August 1989, of the 466 accounts that were delinquent for more than 60 days, 318 had not been suspended. The elapsed time ranged from 3 to 20 months. In one instance, the licence was still not suspended even though the person had been in default for three years.

Driver's licence suspensions form a basic part of the collection process at the Fund. Therefore, licences should be suspended on a timely basis.

## Government Accounts Receivable

**RESPONSE**

The Ministry of Treasury and Economics co-ordinated the ministries' replies. The Deputy Treasurer forwarded the following comments on August 28, 1990 and included a summary of the ministries' responses. Comments appearing under ministry captions are extracts from this summary.

*"We are encouraged by ministries' positive attitudes in responding to your concerns and support actions taken by them to enhance collection activities. Nevertheless, improvements are needed. Treasury will, therefore, notify all ministries about the audit findings and remind them of the policies pertaining to receivables collection as well as the policies pertaining to charging of interest on overdue accounts."*

**TIMELY FOLLOW-UP AND BETTER COLLECTION EFFORTS NEEDED**

*"Your comments on the low priority given to collections by ministries and the need to refer more accounts to commercial credit bureaus might be addressed in the future by allowing collection fees to be treated as statutory expenditures instead of being part of the ministry program expenditures. Treasury will review the legislation and discuss the subject with ministries which could result in recommendations for changes to the current policies."*

MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY

*"According to the Corporation, the cases noted by the Provincial Auditor are exceptions rather than the rule.*

*"The Corporation has undergone a major restructuring, which will result in improved collection of accounts.*

*"It is agreed that quicker action improves the likelihood of collecting overdue accounts. However, it may be more effective to delay collection efforts until the borrower is in the possession of funds.*

*"Calling personal guarantees when the loan is called has been implemented. However, the active collection of personal guarantees cannot be undertaken until the prime security is liquidated and the loss established."*

**CENTRAL COLLECTION SERVICE**

MINISTRY OF GOVERNMENT SERVICES

### *Collection Efforts Need Improvement*

*"Collection officers concentrate their efforts on the most productive activities (initial contact and payment arrangement) as follow-up activity does not generate as much incremental revenue.*

*"A submission through the Revenue Incentive Fund for additional staff has been favourably received and a Management Board submission is now being finalized.*

*"The Ministry's Legal Branch has undertaken action to improve its effectiveness in supporting Central Collection Services."*

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MINISTRY OF TREASURY AND ECONOMICS

### *Interest Charges on Overdue Accounts Inconsistent*

*"The Treasury manual delegates to the senior management in each ministry, the responsibility for charging interest on debts owing beyond 30 days. Exemptions from interest charges may be given on the grounds of financial hardship, economic considerations or other circumstances.*

*"Treasury will remind ministries of the interest policy."*

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**MOTOR VEHICLE ACCIDENT CLAIMS FUND (MVACF)**

MINISTRY OF FINANCIAL INSTITUTIONS

### *Collection Procedures*

*"The MVACF recognized the need for more aggressive collection procedures and is in the process of installing internal legal counsel to enhance various collection mechanisms.*

*"A formal skip tracing program is planned to be implemented at the MVACF during the summer.*

*"The MVACF always seeks a judgement when it is cost effective to do so and will continue to seek ways to enhance collection efforts."*

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### *Inadequacy of Write-offs*

*"The MVACF has instituted a system of annual write-offs which will take 3-5 years before write-offs are generally considered up-to-date."*

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### *Repayment Terms Too Long*

*"The MVACF now verifies debtors' financial information in its efforts to determine their ability to pay.*

*"Repayments are determined as a function of a debtor's disposable income. The resulting monthly cash payments may be minimal, but the amount collected as a percentage of the debtor's available cash is generally higher than 10 per cent."*

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### *Drivers' Licences Not Suspended on a Timely Basis*

*"Control procedures have been implemented to improve compliance with the 60 day licence suspension requirement."*

# Government Vehicle Fleet Administration

## 2.6 Government Vehicle Fleet Administration

The Ministry of Transportation develops the Government's Motor Vehicle directives and accompanying guidelines and co-ordinates the administration of the Province's motor vehicle fleet. However, adherence to these directives, including the minimization of vehicle acquisition and operating costs, is the responsibility of individual ministries.

In August 1989, Ontario Government ministries owned or leased approximately 12,200 vehicles, of which 6,900 were passenger and light-duty vehicles.


### SUMMARY

#### SCOPE AND OBJECTIVES

The audit focused on the use and operation of passenger and light-duty vehicles in seven ministries: Agriculture and Food, Community and Social Services, Correctional Services, Environment, Labour, Solicitor General and Transportation. These ministries account for approximately 70 per cent of the Government's passenger and light-duty vehicle fleet.

Our audit objectives were to assess whether:

- the selection of Government or personal vehicles for transportation was based on economic considerations; and
- Government vehicles were operated and maintained economically.

#### CONCLUSIONS AND FINDINGS

*TRANSPORTATION OPTIONS*

**The option of using a Government or personal vehicle was generally not based on economic considerations.**

- **Many Government vehicles did not travel the minimum number of kilometres required to justify their acquisition.**
- **Many personal vehicles were being used where Government vehicles would have been more economical.**

*VEHICLE OPERATIONS, MAINTENANCE AND REPAIRS*

**Due to inadequate documentation in some ministries, it was not possible to assess whether Government-owned and leased vehicles were operated and maintained economically. Where information was available, we were not satisfied that vehicles were economically operated and maintained.**

- **There was no evidence that the necessity or reasonableness of the cost of maintenance and repairs was established.**

  **In a number of instances, repair and maintenance costs significantly exceeded the standard established by the directives.**

- **Large repair costs were incurred on older vehicles which likely did not warrant such expenditures.**

## Comments on Cross-Ministry and Special Audits

**While some of the individual amounts may appear minor, they represented instances that were commonplace and therefore collectively significant.**

*OTHER MATTERS*

**Ministries and other Government entities are required to report operational data to the Fleet Administration Office quarterly. Only 10 of 36 reported any data for the first two quarters of the 1990 fiscal year.**

### BACKGROUND

In 1985, the Management Board Secretariat conducted a review of Fleet Management in the Ontario Government. As a result of the review, an annual savings target of $6 million was established. This represented 5 per cent of the estimated transportation costs of $116 million for the 1985 fiscal year.

To help attain this target, in April 1986 Management Board assigned an enhanced mandate for fleet administration to the Ministry of Transportation. The Ministry established the Ontario Government Fleet Administration Office in the fall of 1986. This Office develops vehicle-related directives and guidelines and acts as an advisory body to all Government vehicle operators. However, it has no authority to enforce compliance with its directives and guidelines.

The Fleet Administration Office has a staff of six and is supported in its function by an inter-ministerial committee which meets quarterly.

### COMMENTARY

#### Overview

Within the ministries, individual fleet sizes of passenger and light-duty vehicles ranged from a low of one vehicle to a high of approximately 2,300. Varying management practices and degrees of priority were assigned to fleet management. While the Ontario Provincial Police fleet was generally well managed, many of the other ministries could significantly improve their fleet management.

The following contributed to deficiencies in fleet administration practices:

- There were no procedures to ensure that directives and guidelines governing the acquisition and operation of vehicles had been complied with. For example, business cases were often not prepared.

- Ministries with small fleets did not have sufficient resources to manage their fleets appropriately. Staff assigned responsibility for Government vehicles often had other duties and only spent a small amount of time on vehicle administration. As a result, they generally lacked the expertise and incentive to be effective in the vehicle administration function.

- The large number of vehicle-related expenditures were difficult to monitor and control effectively because they tended to be dissimilar and for relatively small amounts.

*TRANSPORTATION OPTIONS*

**Transportation Options Selected Not Economical**

While the use of Government-owned or leased vehicles satisfies a large part of the Government's transportation requirement, personal vehicles are also widely used. Compensation rates for the use of personal vehicles are set by Management Board annually on a graduated scale. In Southern Ontario at the time of our audit they ranged from 29 cents per kilometre for the first 4,000 kilometres to 17.5 cents after 24,000 kilometres.

Based on compensation rates and on the cost of acquiring and operating Government vehicles, the Fleet Administration Office determined that a Government vehicle should be provided to individuals travelling over 19,000 business-related kilometres in the 1990 fiscal year. The comparable figure in 1989 was 24,000 kilometres. Business-related kilometres exclude distance travelled from an employee's home to a designated headquarters.

The Ministry of Transportation recognizes that ministries cannot adjust their vehicle fleet sizes and vehicle assignments annually based on revised kilometre compensation rates and vehicle acquisition and operating costs. As a result, it expects to continue for some time at the 22,000 business-related kilometres level at which vehicles are to be provided to individuals for the 1991 fiscal year.

**A large proportion of the Government vehicles reviewed did not travel the minimum number of business-related kilometres required to make provision of such a vehicle economical. At the same time, a number of employees were compensated for the use of personal vehicles when the use of a Government vehicle would have been more economical.** The following are examples.

*Office of the Fire Marshal*

In the 1987 fiscal year, the Internal Audit Branch of the Ministry of the Solicitor General conducted a review of the Fire Marshal's vehicle fleet. Deficiencies noted at that time included:

- Vehicle usage logs were not maintained in a complete and accurate manner.

- 15 of 17 supervisory vehicles were regularly used for commuting between the officers' residences and the Fire Marshal's offices. Although personal use of Government vehicles averaged 57 per cent and ran as high as 88 per cent, all repair and maintenance costs were paid for by the Office of the Fire Marshal.

The Office of the Fire Marshal responded that the internal auditors' criticism of the vehicle logs was valid and that it would ensure that future logs were better maintained. In addition, it acknowledged the high rate of use of supervisory vehicles for commuting purposes. Vehicles were taken away from supervisory personnel effective May 1987, and pooled vehicles were to be used "as required."

Our review of the Fire Marshal's fleet in November 1989 indicated that **little improvement had taken place since the 1987 internal audit. Controls over vehicles continued to be unacceptable.**

- Vehicle logs were poorly completed and not detailed enough to allow for effective review. Vehicles frequently travelled thousands of kilometres in a month and neither the vehicle log nor the operators' travel claims provided an explanation for this travel. Also, some log entries appeared unreasonable. For example, entries for daily travel in Metropolitan Toronto were as high as 850 kilometres.

  There was no evidence that vehicle logs were reviewed and approved. In addition, a number of logs could not be located.

- 5 of 17 supervisors had been using pooled vehicles on a full-time basis since as early as September 1988, and not "as required" as indicated in the Fire Marshal's response to the internal audit report.

- Effective July 1989, Government vehicles were once again assigned to all supervisory personnel. From a review of vehicle travel logs and employee expense accounts, we determined that the majority of supervisors would travel less than 19,000 business-related kilometres annually. At least two supervisors would travel less than 6,000 business-related kilometres in a year.

  In addition, supervisors were regularly using their assigned vehicles to commute between their residences and the Fire Marshal's offices. Use for commuting purposes averaged the same as in 1987 and ran as high as 95 per cent, with all vehicle costs paid for by the Fire Marshal.

In several instances individuals claimed, and were reimbursed for, use of personal vehicles while in possession of Government vehicles. For example, one individual signed out a pooled vehicle from August 14 to August 31, 1989 and travelled 700 kilometres. However, during the same period, the employee was also reimbursed $340 for travelling 1,400 kilometres in a personal vehicle.

We recommended that the Fire Marshal only assign Government vehicles to individuals who travel enough business-related kilometres to warrant their use. The Fire Marshal should also instruct vehicle operators to maintain complete and accurate travel logs. These logs should be reviewed and approved on a regular basis.

*Ministry of Labour*

Most of the Ministry's vehicles were assigned to field inspectors in the Industrial Health and Safety and Construction Health and Safety branches. Our review indicated that a majority of these vehicles were under-used. For the 1989 fiscal year, 75 per cent of the fleet travelled less than the kilometre level required for that year for provision of a Government vehicle. For the 1990 fiscal year, based on a review of operating information to October 1989, approximately 55 per cent of the Ministry's fleet was likely to travel less than the 19,000 kilometres required.

Furthermore, in three area offices a significant portion of the travel resulted from officers taking their assigned vehicles home at night. Some inspectors were commuting long distances to get to work at Government expense. For example, inspectors who lived in Peterborough and Orangeville had their work districts in areas of Metropolitan Toronto. We were advised that the Ministry was aware of this problem and was reassigning work districts wherever possible to rectify it.

A number of vehicles were also not assigned and therefore were only used when managers were required to make field visits. Since these individuals normally worked in their designated offices, the need for Government vehicles to be stationed at their offices was minimal.

We estimated that the Ministry would save almost $700,000 over five years if Government vehicles travelling less than 19,000 kilometres in a year were replaced by personal vehicles reimbursed on the basis of kilometres travelled. The saving would be greater if the new minimum of 22,000 were used.

The Ministry advised that inspectors would be reluctant to give up their Government vehicles since they were not required to provide vehicles as a condition of employment. However, inspectors might be less reluctant if the Ministry significantly curbed the use of Government vehicles for commuting from home to office.

While many of the Ministry's vehicles were under-used, 87 individuals using personal vehicles were likely to be reimbursed for over 19,000 kilometres during the 1990 fiscal year. Of these, 46 would probably exceed the new standard of 22,000 kilometres. Four claims would likely be as high as 50,000 kilometres. We were advised that sufficient funds were not available to obtain enough vehicles to meet Ministry needs. However, the Ministry has agreed to review this situation.

*Ministry of Transportation*

At the Ministry of Transportation during the 1989 fiscal year, 138 individuals claimed over 24,000 kilometres for personal vehicle usage. Eight individuals claimed over 40,000 kilometres. On the other hand the Ministry had approximately 130 vehicles, which were primarily used for employee transportation. These vehicles travelled less than 24,000 kilometres each (averaging 13,500 kilometres).

We were advised that since the Ministry did not have enough cars, some employees had been given the option of using their personal vehicles, as long as they stayed with this option for the full year. We estimated that the Ministry could save approximately $850,000 over five years if individuals claiming over the new standard of 22,000 kilometres for personal vehicle usage were assigned a Ministry car.

Another issue related to this was the break-even point. While the Fleet Administration Office directives established 22,000 kilometres as the new standard, the Ministry's Highway Operations and Maintenance Division used 30,000 kilometres. (Approximately 40 individuals claimed in excess of the 30,000 level for personal vehicle usage.)

We recommended that the Ministry review these figures to ensure that a proper standard is established. Once a standard is established, all affected branches of the Ministry should be required to abide by it.

*VEHICLE OPERATIONS, MAINTENANCE AND REPAIRS*

According to the Ministry of Transportation, the Ontario Government's vehicle fleet had a replacement value of approximately $175 million at the time of our audit. Operating and maintenance costs would double the cost of this investment over the life of the vehicles. Therefore, good management controls over vehicle operation, maintenance and repairs are essential. For example, there should be controls in place to ensure that maintenance and repairs are undertaken only as required and at a fair price.

Individual vehicle maintenance and repair experience may vary depending on usage and other factors. However, the Ministry of Transportation has determined that, for passenger and light-duty vehicles, expenditures should average between three and four cents per kilometre driven.

**Our ability to effectively review and assess maintenance and repair activities in most of the ministries was limited due to a lack of adequate documentation:**

- Monthly and quarterly operating reports, prepared by ministry field offices, often included only the total dollars expended with no details about the nature of the expenditure; and

- Where invoices were located, they generally provided adequate details of the costs of parts used but inadequate details of labour charges.

**Accordingly, we questioned how most ministries determined that expenditures were necessary and economical. Where we were able to review documentation, we had a number of concerns.**

**Necessity and Reasonableness of Maintenance and Repairs Not Determined**

**Given the diversity and frequency of maintenance and repair work, adequate controls are required to ensure that only necessary work is performed at a reasonable price.** Such controls would normally include having:

- someone on staff who is technically proficient in the maintenance and repair of vehicles;

- that individual examine vehicles, at least on a random basis, and agree to the necessity and cost of repairs, particularly larger repairs; and

- accurate and timely vehicle maintenance and repair records to determine the plausibility of proposed work and charges, based on the experience of similar vehicles, previous repairs to that vehicle, and the applicability of warranty provisions.

**These controls were generally lacking.** While the Ontario Provincial Police and the Ministry of Transportation had a number of mechanics on staff and performed some work in-house, they were the exception. Most individuals in other ministries who approved maintenance and repair work were not technically proficient and did not have access to in-house expertise. Furthermore, there was no evidence that these individuals saw the vehicles in question, since most approvals were given over the telephone.

In addition, in a number of instances, garage invoices did not identify the vehicles repaired. Consequently, there was little assurance that the expenses were for Government vehicles.

These inadequacies, combined with incomplete and inaccurate maintenance and repair records on a vehicle basis, meant that ministries relied almost entirely on garages to undertake only necessary work and to charge a fair price.

Since there was insufficient information available on individual vehicles, we compared total repair and maintenance costs per kilometre at individual ministry locations to the standard of three to four cents per kilometre.

**In a number of locations, maintenance and repair costs per kilometre significantly exceeded the standard.** There was no evidence that ministries were aware of field offices with abnormal experience. For example:

*Ministry of the Environment*

Maintenance and repair costs at five locations reviewed ranged from a low of .6 cents per kilometre in the Investigation and Enforcement Branch to a high of 11.5 cents per kilometre in Central Region. Repair and maintenance costs for individual vehicles were as high as 25 cents per kilometre.

Most of the work on vehicles in Central Region was performed at one garage which had been given a blanket purchase order totalling $114,000 for a 17-month period. While three garages bid on this contract, the selection was based on an incomplete assessment of the information supplied by the bidders.

A review of a sample of invoices from this garage indicated that the number of labour hours incurred was usually not recorded. Consequently, it was not possible to determine whether labour hours were billed at the quantity and rates stipulated in the blanket purchase order.

Since labour charges were not in multiples of the hourly rates stipulated in the blanket purchase order, it is unlikely that they were billed at the those rates. In the one instance where the hours incurred were recorded, they were billed at rates higher than those previously agreed to.

*Ministry of Community and Social Services*

We reviewed maintenance and repair costs per kilometre at four Ministry offices. Costs averaged 7.3 cents per kilometre and were as high as 12.7 cents per kilometre in one location. Costs for individual vehicles were as high as 37 cents per kilometre over an 18-month period.

Our review of garage invoices revealed some questionable items. For example a repair originally estimated at $100 actually cost $524, while another estimated at $380 cost $870. Explanations for extra costs were not provided.

The garage invoices generally lacked sufficient detail of labour costs to permit an effective review. For example, labour charges did not separate hours and rates billed.

### Large Repairs of Old Vehicles

Ministries often operate their vehicles longer than recommended under their normal retention policies because of fiscal year budget constraints. This results in higher maintenance and repair costs.

**During 18 months ending December 1989, costly repairs were incurred on a number of older vehicles which likely did not warrant such expenditures.** For example:

At the Ministry of the Environment:

- $4,600 on a 1981 van;
- $2,400 on a 1983 compact car; and
- $1,700 on a 1980 van.

Similarly at the Ministry of Community and Social Services:

- $2,500 on a 1983 compact car;
- $2,100 on a 1983 compact car; and
- $1,800 on a 1982 compact car.

*OTHER MATTERS*

### Ministries Not Reporting to Fleet Administration Office

In its 1987 report to Management Board, the Fleet Administration Office stated that a "government-wide database of vehicle operating information will be in operation by the end of 1988."

Accordingly, all ministries and organizations operating Government vehicles are to report operational data to the Fleet Administration Office on a quarterly basis. Data are to be reported by vehicle class or subclass and are to include at a minimum:

- the number of vehicles in each class or subclass;
- kilometres driven;
- litres of fuel used;

- fuel cost; and
- service and repair costs.

However, **as at January 1990, only 10 of the 36 ministries and other Government agencies had reported for the first or second quarter of the fiscal year ending March 31, 1990.** Furthermore, only five ministries fully complied with the quarterly reporting requirements the previous year.

Properly updated, the Fleet Administration Office's database of operational information could play an important role in setting Government standards and provide a good overview of fleet operations.

RESPONSE

Management Board Secretariat obtained replies from each of the ministries identified in our report. The Secretary of The Management Board of Cabinet wrote to us on August 31, 1990 and attached the ministries' responses. The following are extracts from these responses.

GENERAL

***Ministry of Transportation***

*"The ministry's role in government fleet administration has, to date, been essentially a consultative one with all the other ministries. We have developed the policies and guidelines by which all vehicles are to be managed, while accountability for compliance has rested with each ministry. Clearly, the Provincial Auditor finds this to be inadequate. In the future, my ministry will identify areas of non-compliance and will require ministries to adequately explain such non-compliance.*

*"The concerns related to large expenditure repairs for older vehicles and the inappropriate use of personal vehicles rather than government owned vehicles are currently being reviewed in order to take appropriate action."*

***Ministry of Community and Social Services***

*"Both this Ministry and the Ministry of Transportation through the Fleet Administration Office have gone to great lengths to provide training, advice, information and ideas on how we can become more effective at our jobs and improve our knowledge of vehicle administration. We will escalate this training through improved attendance at fleet administration courses offered by the Ministry of Transportation."*

## Comments on Cross-Ministry and Special Audits

### *Ministry of the Environment*

*"By way of general comment I would like to say that we share the Provincial Auditor's concerns over some of the matters raised in his report. To address these concerns we have made changes to and strengthened the Ministry's Fleet Management Policy, and we have implemented stricter local controls over fleet management. Also, our next fleet management audit will be conducted on a Ministry-wide basis."*

### *Ministry of Labour*

*"The Ministry of Labour appreciates the communication between the office of the provincial auditor and its staff on the issue of fleet management. During the course of the review there were meetings held which facilitated an open exchange of information which assisted the ministry in considering the issues associated with running the fleet of vehicles used by ministry officials. The review identified certain matters which the ministry recognized as requiring attention and, as we indicated in previous communications with the provincial auditor's staff, action has been taken to correct these."*

TRANSPORTATION OPTIONS

### *Transportation Options Selected Not Economical*

Office of the Fire Marshal

*"The findings of the Provincial Auditor with respect to Office of the Fire Marshal vehicle usage and monitoring are valid. A new office policy on Vehicle Fleet Management will ensure that:*

- *government vehicles are used only for business purposes*
- *complete and accurate travel logs are maintained*
- *government vehicles are provided only upon presentation of a completed and authorized 'Pool Vehicle Request' form, which includes details on usage, destinations, mileage and repair requirements."*

Ministry of Labour

*"As a general comment, . . . there is one overriding issue which the ministry believes should be highlighted to correct the apparent misperception in the report that the ministry has deficient administrative practices. The provision of vehicles to ministry field staff is governed by the terms of the collective agreement which does not permit the ministry to require the use of private vehicles as a condition of employment. With this in mind it is misleading to suggest that the ministry is in a position to save $700,000 or to reallocate vehicles among field staff at will.*

*"Despite the existence of an economic break-even point for the assignment of government vehicles, the Ministry cannot require employees to provide personal vehicles for the execution of employment related duties. The Ministry feels strongly that the report does not give sufficient importance to the constraints imposed upon*

*it by the stipulation in the Collective Agreement, that 'the use of privately owned automobiles on employers business is not a condition of employment.'*

*"The Ministry rotates high mileage and low mileage vehicles where it is deemed feasible. However, the geographical location and physical requirements restrict the opportunities for rotation on a province-wide basis. For example, it would be inappropriate to rotate a low mileage two wheel drive sedan from Toronto with a four wheel drive truck required to service clients in northern Ontario.*

*"Although there are instances where vehicles are unassigned, this results from factors such as temporary absences of field staff on head office assignments or recruitment delays.*

*"Occupational Health and Safety Inspectors take government vehicles home as part of an overall strategy to enhance client service. This enables inspectors to proceed directly from their home to the site of the first inspection on a daily basis . . .*

*"Further, since field staff are required to respond to emergency situations on a 24 hour, 7 day a week basis, they must have immediate access to a vehicle . . .*

*"Since it is not normal practice for inspectors to report to the ministry office, the ministry considers the travel between home and first call as work - time, and therefore the ministry considers this to be an appropriate use of government vehicles.*

*"It would therefore be inappropriate to put into place practices that would have the result of restricting the Ministry's ability to provide an appropriate response to emergency situations.*

*". . . the ministry has taken action to rectify specific vehicle usage problems that existed as a result of inspectors living outside of their assigned work areas.*

*"We understand the stated $700,000 savings figure resulted from a purely theoretical calculation which projected a 'best case' scenario of costs associated with equivalent use of personal vehicles versus government vehicles over a five year period.*

*"Our concern is that such a theoretical projection could never occur in reality, and could best be described as problematic since the Collective Agreement allows us no power to demand an inspector use his or her own personal vehicle.*

*"Further, since most situations that require an emergency response by ministry field staff already result in lost production and increased costs for our client groups, any possible government savings resulting from restricting our ability to provide emergency service would have an adverse economic impact on industry.*

*"The Ministry is reviewing the overutilization of personal vehicles.*

*"It should also be noted that the financial position of the ministry in the last few years has not allowed it to purchase vehicles at a rate commensurate with the expansion of the field force. It has therefore been necessary for the ministry to utilize personal vehicles in those instances where individual field staff were prepared to make their personal vehicle available for government business."*

## Comments on Cross-Ministry and Special Audits

Ministry of Transportation

*"My ministry is currently developing a strategy to reduce the number of its employees who use their personal vehicles in excess of guidelines. We will also resolve the difference in break-even limits."*

VEHICLE OPERATIONS, MAINTENANCE AND REPAIRS

### *Necessity and Reasonableness of Maintenance and Repairs Not Determined*

Ministry of the Environment

*"Maintenance and repair costs for some vehicles were high because of their age (over 5 years) and because some of the vehicles (38% of the vehicles reviewed for Central Region) were classified as heavy duty equipment having higher per kilometer costs than passenger and light-duty vehicles.*

*"These three bids were evaluated primarily on the basis of costs of the most commonly used services - specifically the costs of labour and the discounts on parts. Comprehensive evaluations of all prices on new contracts will now be carried out.*

*"In some cases the number of labour hours were not shown on the invoices or the hourly rates were different than the contract rate. This occurred mainly for sublet jobs and common services i.e. radiator flushing. In these instances the local Vehicle Coordinator reviewed the invoices to ensure that the hours and billing rates did not exceed those specified in the . . . Auto Repair Manual."*

Ministry of Community and Social Services

*". . . we are taking steps to put in place new Fleet Management Guidelines on repair standards, practices and procedures. Staff and Fleet Managers will be reminded of their rights under the Motor Vehicle Act in relation to unauthorized changes to previously agreed repair estimates. An awareness program on infractions, pointed out in this segment of the report, will be implemented to help educate the various users and managers responsible for fleet vehicles. By doing so, these infractions should be greatly reduced. Inaccurate repair estimates will be eliminated and labour costs will be provided on all invoices."*

### *Large Repairs of Old Vehicles*

Ministry of the Environment

*"The operation of older vehicles is not by choice. Budget constraints sometimes necessitate the purchase of used vehicles from the Ministry of Transportation. At other times, new program pressures necessitate the retention of older vehicles. Under such circumstances the repair expenditures were considered justified but would not be under normal budgetary conditions."*

## Inspection Audit, Centenary Hospital

Ministry of Community and Social Services

*"With regard to excessive repair expenditures on older vehicles, in principle this should not occur. To avoid this type of activity from happening in the future, MCSS will strengthen present policies and keep a closer watch on repair invoices, especially for older vehicles. Although we presently have a follow-up system to try and control this type of thing it will be reviewed to see where improvements can be made."*

2.7
**Inspection Audit, Centenary Hospital, Ministry of Health**

Centenary Hospital is a 645-bed facility situated in the City of Scarborough, offering numerous in-patient and out-patient services. In 1989, it employed 1,325 full-time and 850 part-time staff.

During the 1989 fiscal year, the Hospital had expenditures and revenue of approximately $87 million and $89 million, respectively. Revenue consisted of operating grants of $76 million from the Ministry of Health and $13 million from other sources.

### SUMMARY

#### SCOPE AND OBJECTIVE

We examined the adequacy of the accounting records and related procedures for expenditures. For non-payroll expenditures we examined:

- the acquisition of goods and services;
- the inventories of drugs, fixed assets, and medical and surgical supplies; and
- the processing and payment of goods and services.

We also examined the processing and payment of payroll expenditures.

#### CONCLUSIONS AND FINDINGS

*NON-PAYROLL EXPENDITURES*

**We concluded that the accounting records and related procedures for non-payroll expenditures required major improvement.**

- **Tendering procedures for equipment, general supplies and services were frequently not followed.**
- **Pilferage of non-controlled drugs could have gone undetected because of weak accounting controls over inventories.**
- **Missing equipment could have gone undetected because the Hospital did not maintain a record of equipment acquired.**

- **Prompt follow-up of significant discrepancies between the records of medical and surgical supplies and stock on hand was required to ensure that the Hospital was not vulnerable to pilferage or clerical error.**

**However, we found:**

- **acquisition procedures for drugs and medical and surgical supplies were followed; and**

- **controls over the processing and payment of non-payroll expenditures were satisfactory.**

*PAYROLL EXPENDITURES*

**We concluded that the accounting records and related procedures for payroll expenditures were satisfactory.**

*OTHER MATTERS*

**Since June 1988, at least 27 beds, including seven critical care beds, were closed without the necessary Ministry approval.**

**Fifteen per cent of the acute care beds were occupied by long-term care patients in the 1989 fiscal year. If these patients were placed in chronic care hospitals and the related acute care beds in the Hospital closed, we estimated that the Province could have saved approximately $3.4 million.**

COMMENTARY

*NON-PAYROLL EXPENDITURES*

**Competitive Selection Policy for the Acquisition of Equipment, General Supplies and Services Frequently Not Followed**

A competitive selection process for goods and services helps ensure that the best value is received for funds expended, that vendors are treated fairly, and that the firm selected is the one best qualified to meet requirements. Accordingly, Hospital policy requires as many items as possible to be purchased on a competitive bid basis. Where there are two or more suppliers, a minimum of two bids are to be obtained. In certain circumstances, such as the existence of only one supplier or previous experience that justifies placing orders without bids, the policy provides for the acceptance of a single bid.

To assess compliance with this policy, we examined a sample of 46 expenditures totalling $5.4 million, incurred over the 1989 and 1990 fiscal years. **We found that the policy was frequently not followed.**

We noted:

- 27 purchases totalling $3.3 million where the competitive selection policy was not followed. There was no documentation explaining why purchases were made without competitive selection. Sixteen of these purchases, exceeding $25,000 each, totalled $3.2 million. One purchase involved a consulting contract for $1.2 million.

- a purchase for $187,000 where two quotations were obtained and the lower quotation (by $10,000) was not selected. There was no documentation to support the selection.

We recommended that Board approval be obtained for the exceptional situations when the competitive selection policy is waived. Documentation for these decisions should be placed on file.

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**Weak Accounting Controls over Non-controlled Drug Inventories**

For the 1989 fiscal year, the pharmacy department spent approximately $2.3 million on drugs - 95 per cent for non-controlled drugs such as antibiotics, valium and aspirin, and 5 per cent for controlled drugs such as morphine and codeine. As at March 31, 1989, the pharmacy department had approximately $365,000 in drugs, consisting of approximately $347,000 in non-controlled drugs and $18,000 in controlled.

The pharmacy department provides nursing units with a multi-day supply of most drugs. In 1989, drug purchases of $.4 million were dispensed on a ten-day supply and $1.5 million on a four-day supply. The remaining drugs costing $.4 million were dispensed on a one-day supply. For drugs issued on a ten-day supply, refills are generally provided for an additional ten days. For drugs issued on a four-day supply, refills are generally provided for an additional three days.

A key control over inventories is the maintenance of a perpetual inventory record, which allows actual and recorded stock to be compared. Significant differences may be the result of pilferage or clerical error and should be promptly investigated by management to minimize their effect on operations.

Accurate perpetual records were maintained by the pharmacy department for controlled drugs and adequate safeguards were in place to restrict access to authorized employees. **However, perpetual records were not maintained for non-controlled drugs and the pharmacy department staff had unrestricted access to them. Accordingly, pilferage by pharmacy staff could have gone undetected.**

Another control over inventories is a record which indicates the use of stock by responsibility centre or department. This enables management to monitor monthly costs and to investigate unusual fluctuations. **However, the pharmacy department did not maintain adequate records of drugs issued to departments.** As a result, the Hospital could not compare actual usage by department to a budgeted amount. Instead, the pharmacy department only compared Hospital purchases of certain drugs with budgeted purchases.

Hospital procedures required that unused drugs be returned to the pharmacy department. **However, there was no system to ensure unused non-controlled drugs were returned by the nursing units.** Such a system is particularly needed in view of the multi-day drug supply dispensed by the pharmacy department and the possibility that non-controlled drugs issued could have exceeded a patient's stay in the Hospital. Accordingly, pilferage of such drugs could have gone undetected.

We were given to understand that the Hospital would be implementing a system in the near future to ensure that only a 24-hour supply of drugs is held in the nursing units. As well, we were informed that the Hospital will be installing a perpetual inventory system during the 1991 fiscal year which can track costs of drugs issued to each Hospital department.

### Controls over Equipment Inadequate

As at March 31, 1989, fixed assets were recorded at a depreciated value of $45.4 million (with an original cost of $64.2 million) in the financial statements of the Hospital. Of this, $35.2 million was for land and buildings, and the remaining $10.2 million was for equipment. The Hospital's practice is to classify equipment purchases in excess of $1,000 as fixed assets. Our audit focused on the controls to ensure the existence of equipment.

According to Hospital policy, when goods are transferred between departments, sold, traded or scrapped, each change is to be noted on the equipment record card. **We found that the record card did not exist.**

The principal ingredient to effective control is the maintenance of an equipment record showing details such as description, identification number, location and date of purchase. **Since such a record was not maintained, the hospital did not have the basic means to determine whether any equipment was missing.**

We selected a sample of 27 equipment purchases made between the 1986 and 1990 fiscal years and checked for the existence of this equipment and whether each item had been marked with an identification number. One item could not be found and two could not be specifically identified. In addition, many items did not have a Hospital identification number.

### Controls over Medical and Surgical Supplies Inventories Required Improvement

For the 1989 fiscal year, the Hospital spent approximately $3.4 million on medical and surgical supplies (e.g. masks, needles, bandages and sutures). According to the perpetual inventory records, supplies of approximately $400,000 were on hand in central supply. Supplies are distributed to all areas of the Hospital including nursing units, the emergency department and the operating room. The cost of supplies issued is charged to each department.

To review the accuracy of the perpetual records, we selected 20 items and compared the actual quantity to the amount identified in the records as at November 6, 1989. Our review revealed differences in all 20 items. In many cases, the actual quantity was significantly different from that indicated in the perpetual records. For example, the records reflected 74 pairs of crutches but the actual was 48; the records indicated 27 sheepskin blankets but the actual was 13. The Hospital noted similar discrepancies at the time of its 1989 fiscal year-end count. **Significant differences may be the result of pilferage or clerical error and should be promptly investigated by management to minimize their effect on operations.**

We also reviewed the controls over the access to medical and surgical supplies maintained at the nursing units. **In many units these supplies could easily have been obtained by almost anyone in the general area.**

We compared the actual costs to budget for eight departments for three months in the 1989 fiscal year. On many occasions, the actual was significantly higher than the budget and there was no documentation to indicate that these variances had been investigated. For example, one department budgeted approximately $14,700 for medical and surgical supplies for a month yet the actual cost was $20,500, or 40 per cent higher than that budgeted.

Effective April 1989, departments were required to document the reasons for differences between budgeted and actual expenditures. This new procedure was generally being followed.

### Acquisition Procedures for Drugs and Medical and Surgical Supplies Followed

To assist in the acquisition of commonly used hospital items, 50 Toronto-area hospitals, including the Centenary Hospital, have grouped together and negotiated purchasing arrangements for most drugs and medical and surgical supplies. In addition, for some medical and surgical purchases, the Hospital uses large vendors who specialize in hospital supplies. This is consistent with the practices of other hospitals.

**Our review of these purchasing procedures did not reveal any major deficiencies.**

### Satisfactory Processing and Payment Controls

For the 1989 fiscal year, non-payroll expenditures totalled approximately $28 million, including $20 million for general supplies and services.

The purchasing department procures goods and services for the Hospital except for drugs and dietary purchases which are the responsibility of the pharmacy and dietary departments respectively. Purchases are based on authorized purchase orders, approved contracts or other forms of documentation indicating approval. Payment for goods and services is supported by invoices and other appropriate evidence.

**Our testing of these controls did not reveal any major deficiencies.**

*PAYROLL EXPENDITURES*

### Satisfactory Controls

For the 1989 fiscal year, salaries, wages and benefits totalled $58.7 million or 67 per cent of total Hospital expenditure. Of this amount, approximately $45.9 million was for full-time staff and $12.8 million was for part-time staff.

The payroll operation at the Hospital is automated using an on-site processing facility. Timecards are prepared by employees and authorized by their managers. Hospital staff are paid bi-weekly, based on rates established by the Hospital or by collective agreements. Changes to the payroll master file, including those relating to new and terminated employees, are based on approval and documentation from the personnel department.

As part of the payroll process, exception reports are generated. For example, one report lists employees who worked more than the required hours in a two-week period. These reports are reviewed for accuracy by the payroll and personnel departments, and corrections are made as required.

**Our testing of the accounting records and related procedures did not reveal any major deficiencies.**

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*OTHER MATTERS*

**Lack of Ministry Approval for Bed Closures**

Hospitals are currently funded under the Business Oriented New Development Plan (BOND) which was introduced by the Ministry in the 1983 fiscal year. Under this plan, each hospital receives operating funds based on the prior year's allocation plus additional funds for growth, inflation, new and expanded programs, and life support.

If a hospital closes beds, patient services may be reduced. Surplus funds may result if the allocation from the Ministry remains unchanged. Under BOND, hospitals are permitted to keep these surplus funds. However, to ensure service levels are maintained, Ministry policy requires that program or service reductions, or bed closures which relate directly to patient care, not be made without the prior approval of the Ministry.

In the 1983 fiscal year, the Hospital received $35 million to operate approximately 520 beds. In the 1987 fiscal year, an expansion at the Hospital was completed, increasing the total number of beds to 645, including 81 chronic care and 27 general rehabilitation beds. For this expansion, the Ministry added approximately $18 million to the Hospital's base funding.

**However, the monthly reports to the Ministry of beds in operation indicated that since June 1988, the Hospital had closed at least 27 beds including seven in the critical care area. Ministry approval was not obtained for these closures. We understood that the closures were due to nursing shortages.**

In discussions with senior officials of the Ministry, we were informed that they did not monitor the Hospital's bed closures to determine if there was any effect on patient care. However, we noted that for patients admitted through the emergency department, the daily average number of patients waiting for a bed increased from six in the 1988 fiscal year to seven in 1989, an increase of approximately 17 per cent.

## Inspection Audit, Centenary Hospital

### Inappropriate Use of Acute Care Beds

In our previous inspection audit of a hospital, we reported that an average of 49 acute care beds (15 per cent) were occupied during the 1988 fiscal year by patients awaiting placement in long-term care facilities. A similar situation existed at the Centenary Hospital. **An average of 87 acute care beds (15 per cent) were occupied during the 1989 fiscal year by chronically ill patients.**

Comments made in our previous report to the Ministry, which are also applicable to the Hospital, included:

- the need for the Ministry to assist the Hospital in locating available chronic care beds in long-term care facilities;

- the implications of using acute care beds for chronic care patients. For example, in this case, **we estimated that the Province could have saved approximately $3.4 million in the 1989 fiscal year if the chronic care patients of the Hospital were placed in chronic care hospitals and the related acute care beds in the Hospital closed.** Also, if 75 per cent of these patients in chronic care beds were able to pay the full co-payment fee, the chronic care hospitals could have received approximately $500,000 for the 1989 fiscal year.

- an acknowledgement of the actions being taken by the Ontario Government aimed at drafting a plan for long-term care for the elderly and people with physical disabilities.

In its response to our report, the Ministry indicated that it had set up a Central Beds Registry which is available to all hospitals in Toronto and that the registry showed acute care and chronic care beds. However, we were subsequently informed by a senior Ministry official that this response was inaccurate as the registry does not include chronic care beds.

**RESPONSES**

The Chairman of the Board responded on June 15, 1990.

NON-PAYROLL EXPENDITURES

### *Competitive Selection Policy for the Acquisition of Equipment, General Supplies and Services Frequently Not Followed*

*"The Hospital will ensure a process is in place that will fully document those instances where tendering is deemed inappropriate. The process will include:*

- *a mechanism for informing the Board of Governors of exceptional situations when competitive selection is waived.*

- *a vehicle for communication with participating vendors of the tendering process results.*

- *sign-off will occur in these instances by either the Vice President - Finance or the Director of Materials Management.*

*"This process will be in place by August 31, 1990.*

*"We disagree with the inference that tendering should always occur. A significant number of the purchases examined related to transactions with either niche vendors or with preferred vendors whose knowledge of the Hospital is not easily transferable. Value to the Hospital is inherent in the partnership and therefore tendering, in this instance, is not warranted. This was the situation with the $1.2 million consulting contract."*

### *Weak Accounting Controls over Non-controlled Drug Inventories*

*"The Hospital has been planning the introduction of a unit dose dispensing and distribution system since mid 1989. This system will commence operation in fiscal 1990/1991 with full implementation expected within four to five years.*

*"In the interim, the Hospital has taken steps to enhance the monitoring of non-controlled drugs, including the installation, within the pharmacy, of a restricted key controlled door to the non-controlled drug inventory storage room and drug review monitoring. In preparation for the unit dose system, the Pharmacy department has begun reducing the quantities of non-controlled drugs stored on the nursing units."*

### *Controls over Equipment Inadequate*

*"The Hospital has committed to develop a strategy by September 30, 1990. The strategy will include a full implementation plan together with resource requirements."*

### *Controls over Medical and Surgical Supplies Inventories Required Improvement*

*"With the introduction of the new computer system in April 1990, a cycle count program was implemented to periodically validate on-hand inventory quantities. Integration of the purchasing and inventory system is also a requirement for accurate inventory levels.*

*"The cycle count program involves stratifying the inventory to ensure maximum count coverage. As such, high volume items will be counted four times per year, moderate volumes will be counted semi-annually and slow moving items will be counted annually.*

*"All variances between actual and perpetual quantities will be identified as either cut-off, clerical error or pilferage. Quantity adjustments will be reviewed and approved by the Manager, Purchasing and the Controller. This process will be fully implemented by October 30, 1990."*

The Deputy Minister of Health also responded on September 4, 1990 and confirmed the action being taken by the Hospital. In addition, the following comments were made relevant to "Other Matters".

## Inspection Audit, University of Toronto

### *Lack of Ministry Approval for Bed Closures*

*"Acute care hospitals in the Greater Toronto Area traditionally undertake bed closures in the summer and Christmas periods. Centenary have closed beds annually during the summer months. Due to a shortage of qualified nursing staff, some critical care beds remain closed."*

### *Inappropriate Use of Acute Care Beds*

*"Recently, The Government released a report entitled 'Strategies for Change: Comprehensive Reform of Ontario's Long Term Care Services.' This document presents the major directions for the reform of Ontario's long-term care system and forms the basis for the forthcoming consultation and implementation planning which will take place across the Province. The savings identified by the Auditor will only be realized if the acute beds are closed and staff positions terminated and assumes a balanced network of services will be available to the elderly."*

**2.8**
**Inspection Audit, University of Toronto, Ministry of Colleges and Universities**

The University of Toronto employs 12,000 full- and part-time staff. Six thousand are faculty. The University offers undergraduate and graduate programs to 50,000 full- and part-time students.

The University received $333 million in operating grants from the Ministry of Colleges and Universities during the 1989 fiscal year.

**SUMMARY**

**OBJECTIVES AND SCOPE**

Our assessment of the adequacy of the University's accounting records and related procedures included an examination of:

- enrolment data reported to the Ministry, for accuracy and compliance with Ministry guidelines;
- assets, for appropriate controls; and
- purchasing and payment practices, for proper controls and compliance with University policies and procedures.

Our audit was restricted to expenditures funded by grants from the Ministry of Colleges and Universities. Accordingly, any expenditures paid through other funding sources such as federal grants, donations or ancillary revenues were excluded.

**CONCLUSIONS AND FINDINGS**

*ENROLMENT REPORTING*

**We found reported enrolment data for the 1989 fiscal year to be accurate and in compliance with established guidelines.**

## Comments on Cross-Ministry and Special Audits

*FURNITURE AND EQUIPMENT*

**Control over assets was unsatisfactory. Specifically:**

- **The furniture and equipment listing was not complete or reliable enough to account for or control such assets. Over one third of the assets we selected from the listing either could not be accounted for or were no longer University property.**
- **Physical counts were insufficient and there was limited tagging or marking of assets and no loan policy for assets taken off-campus by staff.**
- **Almost half of the asset disposals we examined were transacted without obtaining the required fair market value assessments or approvals.**

*PURCHASING AND PAYMENT PRACTICES*

**University policies and procedures to encourage economical and competitive purchasing were sound, but they were often not followed. The University had satisfactory payment practices.**

**BACKGROUND**

The University of Toronto was founded in 1827 and is the largest university in Canada.

In the 1989 fiscal year, the Ministry of Colleges and Universities provided an enrolment grant of $333 million. This represented 75 per cent of the total operating fund income. Operating fund income in excess of expenditures for the 1988 and 1989 fiscal years was:

| | $ millions 1989 | 1988 |
|---|---|---|
| Operating income | 450 | 415 |
| Operating expenditures | 418 | 393 |
| Operating surplus | 32 | 22 |

**COMMENTARY**

*ENROLMENT REPORTING*

**Overview**

The Ministry of Colleges and Universities allocates over 90 per cent of its total funding to individual universities on the basis of reported enrolment data.

Each year, the Ministry updates and issues its Manual to the universities and their external auditors to help them prepare accurate enrolment reports. The Manual defines accuracy to be within two per cent of reported enrolment.

## Inspection Audit, University of Toronto

### Enrolment Reporting Accurate

Using the enrolment data reported by the University of Toronto for the 1989 fiscal year, we tested an initial sample of 249 students. For a number of attributes, we extended our testing to the total reported enrolment.

**On the whole we found that enrolment data reported to the Ministry for the 1989 fiscal year were accurate within the tolerable limits established by the Ministry. The University also complied with established guidelines in all significant respects.**

However, we reported separately to the Ministry on certain matters, involving enrolment reporting policy and its interpretation, which we believed warranted reassessment by the Ministry. (See Section 2.9).

*FURNITURE AND EQUIPMENT*

### Furniture and Equipment Unaccounted For

The University has a central inventory listing of furniture and equipment with a recorded value of $310 million. The University also has written policies and procedures designed to ensure that the inventory listing is current. The Comptroller's Office is responsible for updating the listing. According to University procedure, the Comptroller's Office is to be notified in writing when assets are transferred or disposed of.

In examining the listing we found that, **for over $127 million, or 40 per cent of the furniture and equipment assets, either no location or a very general location was given. Of the remaining 60 per cent, descriptions of many of the assets were so vague that we were unable to identify the assets.**

To verify the existence of assets on the listing, we selected 73 of the adequately described items for confirmation and inspection. The recorded cost was at least $1,000 for virtually every item.

**Of the 73 items selected, over one-third either could not be accounted for or were no longer University property.** These items included video recorders, personal computers, cameras and electronic equipment. In the case of 14 of the items the departments had no knowledge of their existence. Management informed us that five of these items were acquired before 1971 and that it was unreasonable to expect departments to be able to locate such old items. For six other items, disposal was due to breakage or obsolescence. However, these items had not been deleted from the inventory listing. Also, another item had been given to a retiring professor two years earlier, but there was no evidence that the required senior level approval for this disposition had been obtained.

The information on the central inventory listing did not adequately account for furniture and equipment. In addition, because the inventory listing supported figures included in the financial statements, reported assets were overstated.

### Poor Safeguarding of Assets

Because the central inventory listing could not be relied on to keep track of assets, we assessed whether compensating physical controls existed to safeguard these assets. We found that:

- **Except for computer equipment, the University did not tag or engrave its assets** to identify them as University property.
- **Few departments requested printouts of the inventory listing or counted their assets on a periodic basis.** In interviews with 17 departments, we discovered that only three had a listing of their fixed assets, and only four indicated that they performed periodic counts.
- **A formal policy for assets loaned to employees did not exist.**
- Most furniture and equipment was self-insured as the University's deductible on each individual loss is $250,000.

The University informed us that they have campus police and other deterrents to theft. Moreover, the University maintained that individual departments had sufficient incentive to protect their assets because each department is responsible for the first $1,000 of loss or damage to assets. However, in our opinion, departments had not been held sufficiently accountable for the stewardship of assets entrusted to them.

### Improper Disposal of Surplus Assets

University policy on the disposal of surplus assets requires that the department disposing of assets submit a disposal request to the Purchasing Department. Purchasing then determines a fair market value for the disposals and advises the department on whether to proceed. The department head is required to approve the disposal of items with a fair market value of up to $5,000. A more senior level of approval is required when:

- the fair market value is over $5,000;
- the sale is to an employee; or
- the asset is sold for less than fair market value.

We tested a sample of 20 requests for disposal in the 1989 fiscal year. One of the items had not yet been sold. **Of the 19 completed transactions, nine did not comply with the University's disposal policy.** The nine included computers, computer equipment, a word processor, a van and a station wagon. Specifically:

- four sales were made directly by departments without first obtaining fair market value estimates from Purchasing.
- three were made without proper approval.
- two were made without either a fair market value estimate or proper approval.

Failure to advertise surplus assets available for sale may lead to abuse. Although the University had procedures in place to advertise surplus assets, 10 of the 19 completed transactions were not advertised. In addition, six of the 19 purchasers were employees or their relatives. In one of the six cases, an unadvertised 1987 truck was sold at a 45 per cent discount 16 months after purchase. However, the truck's wholesale value was still higher than the disposal price more than a year after the sale.

For four of the other employee-related transactions, sales were made without obtaining fair market value estimates or proper approval or both.

### Library Book Losses Not Determined

The University has approximately 60 libraries which together spend over $7.5 million annually on books and periodicals. The total recorded cost of library books was $87 million at the end of the 1989 fiscal year.

Only one library counts inventory annually. Each year this library averaged a loss of 0.3 per cent of its books. However, we were unable to estimate the total annual loss of books because this library contained only four per cent of the entire collection, and also not all libraries employ the same systems of control over their collections. It is safe to assume that all libraries will lose some books each year.

Complete annual counts for such a large collection of books is not practical, but periodic cyclical counts should be considered. It may also be useful and practical to record and summarize book purchases as either new additions or replacements of lost books. Annual lists of books reported missing should also be used to assess both controls and losses.

## *PURCHASING AND PAYMENT PRACTICES*

### Overview

Operating fund purchases of goods and services for the year ended April 30, 1989 amounted to $88 million. Typical expenditures included computer equipment, scientific equipment and office furniture.

The University has policies in place to control operating and plant expenditures. We tested 70 purchase transactions from the 1989 fiscal year for compliance with these policies. Of the 70 transactions, 61 were greater than $1,000.

### Competitive Quotations Policy Not Followed

University purchasing policy requires that quotations be obtained for all items $1,000 and over. At least three written quotations must be obtained for purchases $5,000 and over, unless the supplier is a sole source or is pre-established as a preferred vendor.

**Of the 61 sample items costing over $1,000, 42 did not have written quotations.** Our follow-up discussion with management indicated:

- 18 of the items were purchased from sole-source suppliers, and therefore it was not necessary to obtain competitive quotes.

  However, University policy specifies that "sole sourcing is discouraged but, if necessary because of the specialized nature of the purchase, must be justified in writing." There was no documentation explaining why these items were classified as sole-source and why alternatives were not acceptable. Management indicated that verbal explanations might have been provided at the time of purchase.

- 15 of the items were purchased from preferred vendors. However, eight of the suppliers could not be found on the preferred vendor list. Management indicated that the list had not been updated for three years.

- For each of the remaining nine items, management agreed that three written quotations should have been obtained.

The University subsequently updated the preferred vendor list to reflect current market conditions. Management also informed us that, as a result of our audit, the buyer is now required to record whether the purchase is to be from a preferred or sole-source supplier.

### Purchasing Department Bypassed

The University purchasing policies and procedures specify that the purchasing of materials, equipment and services is the responsibility of the Purchasing Department.

**During our testing of competitive quotations, we noticed that seven of the 61 sample items over $1,000 were bought by the user departments before informing Purchasing.** Purchasing has the training and experience to obtain the best value for most purchases and to take full advantage of quantity discounts. **The involvement of Purchasing only after purchases are made is conducive to uneconomical buying practices.**

When Purchasing does not have the technical expertise, certain departments are allowed to deal directly with preferred vendors. However, none of the seven sample items were purchased from preferred vendors.

Bypassing the Purchasing Department may also allow conflict-of-interest situations to go undetected. For example, during the 1989 fiscal year the University's Ombudsman received complaints that an employee had purchased equipment and supplies for the University from his own company. This practice had continued for a number of years because the employee purchased materials only for the area that he supervised. Failure to comply with prudent purchasing policies increases the risk of such incidences occurring.

## Inspection Audit, University of Toronto

### Satisfactory Payment Practices

Payment practices were generally satisfactory.

- Invoices for payment bore evidence of receipt of goods, had been matched to applicable orders, and were cancelled to prevent duplicate payments.
- The University incurred no late payment charges. Furthermore, appropriate sales tax exemptions and discounts were taken.

**RESPONSE**

The Chairman of the University's Governing Council responded on August 30, 1990.

PROPERTY, PLANT AND EQUIPMENT

### *Furniture and Equipment Unaccounted For*

*"The University is aware of the deficiency in its record keeping related to the central listing of fixed assets. Throughout the past decade funding levels have forced the University to forego a number of desirable administrative practices. In 1979 the positions assigned to central accounting for furniture and equipment were eliminated in response to budget reductions.*

*"The sample of 73 items, 58 per cent of which were more than 10 years old and half of those more than 20 years old, out of a total inventory listing of approximately 515,000 items is not statistically valid. The statement in the audit report that*

> *'for over $127 million, or 40 per cent of furniture and equipment assets, either no location or a very general location was given. Of the remaining 60 per cent, descriptions of many of the assets were so vague...'*

*is an inappropriate conclusion when it is drawn from such a small sample. The Governing Council's Audit Committee will review this matter with the University administration."*

Editorial Note: Our conclusion on the vague description of assets was based on a scrutiny of the entire asset listing. The sample of 73 adequately described items was used only to verify the existence of assets on the listing.

### *Poor Safeguarding of Assets*

*"The University believes its present procedures for the physical safeguarding of fixed assets are suitable. The University will institute a process to remind departments regularly that fixed assets under their custody are to be properly safeguarded. In addition, a policy guiding the loan of assets to employees will be established."*

## Comments on Cross-Ministry and Special Audits

### *Improper Disposal of Surplus Assets*

*"The University will put in place a process to remind departments regularly of the policies and procedures to be followed with respect to the disposal of surplus fixed assets."*

PURCHASING AND PAYMENT PRACTICES

*"The University will initiate a process to remind departments regularly of our policies with respect to the purchasing of materials, equipment and services."*

**2.9 Enrolment Reporting Matters, University of Toronto, Ministry of Colleges and Universities**

### Overview

The enrolment funding unit reported by universities is called a basic income unit (BIU). One BIU was valued at approximately $4,500. The weights used for reporting enrolment depend on the students' programs of study. For instance, an honours Science student is weighted twice as much as a general Science student.

If upper-years honours students cannot be clearly distinguished from general students, the Ministry requires that only fourth-year students, and certain lower-year students who qualify by virtue of academic performance or "other appropriate criteria," be regarded as honours students.

Concerns raised in our two previous university audits prompted the Ministry to refer the matter of funding Arts and Science students to the Ontario Council on University Affairs for study and recommendations. We therefore recommended that the concerns raised here also be considered by the Council.

### Inconsistent Funding for Arts and Science Students

Since 1969, the University has not differentiated its Arts and Science students into general and honours categories. Instead the University reached an agreement with the Ministry allowing it to use a common funding weight of 1.2 for its Arts and Science students. The weight was based on an average of two years' total enrolment in Arts and Science in the previously differentiated program.

In 1973, the University maintained that it was losing grants relative to other Ontario universities. The funding weight was recalculated to 1.24 based on the number of actual degrees conferred on three-year and four-year students. The weighting factor has been increased periodically based on graduate experience. In 1989, for example, the special weight agreed to by the Ministry was 1.419 BIUs.

In the early years the University received a comparable amount of funding for its Arts and Science students. **However, for at least the last ten years, the University's special funding arrangement has provided it with significantly more funding per Arts and Science student than other universities.**

## Enrolment Reporting Matters, University of Toronto

### Students Taking Commerce Program Prerequisites

The Ministry stipulates that all pre-Commerce students are to be claimed at an annual BIU weight of 1.0. Students formally accepted into a Commerce program are eligible for higher funding at an annual BIU weight of 1.5.

**During the 1989 fiscal year, over 1,000 students taking Commerce program prerequisite courses were claimed as Commerce students, resulting in a claim approximately $1.9 million higher than if they were claimed as pre-Commerce students.**

The University maintained that these students were actually Commerce students because the Commerce program is a four-year program. However, the University's calendar states, "Formal admission to the program is normally made at the beginning of the second year and is based on the student's marks in the courses taken to date."

In our opinion, these students were not Commerce students because, as at the Ministry count dates, they had not been admitted into the University's Commerce program. Indeed, after completing the Commerce prerequisites, only 930 of these students applied to the program, and only 320 were accepted.

In order to ensure consistency in funding, the Ministry should determine whether other universities have adopted a similar approach to reporting Commerce students.

**RESPONSE**

The Deputy Minister responded to our findings on September 14, 1990.

### *Inconsistent Funding for Arts and Science Students*

*"... While no change is contemplated in the method used for amending the undifferentiated Arts and Science weight at the University of Toronto until the OCUA review has been completed, I would like to advise you that the ministry does intend that reporting for Arts and Science be performed on a consistent basis by all institutions...*

*"... The formula for determining the blended weight was implemented only after careful review and discussion by the Joint Subcommittee on Finance of the Committee on University Affairs and the Subcommittee on Operating Grants of the Committee of Presidents of Universities of Ontario.*

*"... the Ministry cannot agree that the blended weight for Arts and Science enrolment at the University of Toronto has resulted in that institution receiving a disproportionate share of funding. It is worthy of note that the decision to establish the blended weight was determined by an open process involving consultation with representatives from all institutions. It should also be noted that, except for the very early years of the operating formula grants, formula weights do not determine the total amount of funding made available to the system -- only the distribution of funds amongst the institutions. No additional funds would have been provided to the system using the University of Toronto's blended weight."*

***Students Taking Commerce Program Prerequisites***

*"The ministry's enrolment reporting guidelines clearly state that a student taking a selection of courses, which might be classified under different formula programs of study, should be classified in the formula program in which the majority of his courses fall. Whether or not the University of Toronto has, in fact, correctly classified the Commerce students identified by your staff would depend on whether the majority of courses taken in the first year were applicable to the Commerce degree and not on whether they were formally registered in a commerce program. While we concur with your observation that the calendar description of this program would appear to refute the university's contention that Commerce is a four year program, the ministry has never required that students be formally registered in formula programs of study, since these are simply broad funding categories."*

Editorial Note: As our only concern is that all institutions receive similar funding for similar students, we recommended that the Ministry pursue the issue of consistency in reporting commerce students with the universities and their auditors.

**2.10**
**Extension of Inspection Audit Activity**

In 1990 we extended our inspection audit activity to the school board community. Two school boards were selected, the Lakehead Board of Education and the York Region Roman Catholic Separate School Board. With both audits, we were pleased with the excellent cooperation and assistance extended by the trustees and staff. The more significant results of these audits are contained in the following two sections of this Report.

Many of our audit findings were common to both of the school boards. At the risk of some duplication, we have not combined similar results but have reported them separately for each Board. We felt this approach provided more complete disclosure and was preferable since these school board inspection audits were the first ever conducted by this Office.

Reference should also be made to Section 3.6 of this report, dealing with our audit of the Ministry of Education's planned accountability framework for grants to school boards.

# Inspection Audit, Lakehead Board of Education

2.11
**Inspection Audit, Lakehead Board of Education, Ministry of Education**

The Lakehead Board of Education has 1,600 employees, including 1,100 teachers. Over 17,000 students attend the Board's 43 elementary and 8 secondary schools. The Board's expenditures for 1989 totalled $102 million, of which $47 million was funded by the Ministry of Education.

## SUMMARY

### SCOPE AND OBJECTIVES

Our audit of the Board assessed whether:

- purchases, including student transportation, were adequately controlled and were made in accordance with Board policies and procedures;
- payroll transactions were adequately controlled and complied with Board policies;
- the budgeting process was adequate as a control measure over Board expenditures.

### CONCLUSIONS AND FINDINGS

*GENERAL*

**Most aspects of financial management and control we examined were either adequate or would be found adequate once planned improvements were fully implemented. Many of our concerns related to a failure to follow established policies and procedures.**

*PURCHASES*

**Purchasing decisions were not documented sufficiently to demonstrate either compliance with Board policies or effective control over purchases. Specifically:**

- **Many transactions did not have evidence of written or formal quotes as required by Board policy.**

**Student transportation contracts were awarded in accordance with Board policies and procedures. However, we were concerned that:**

- **Bus contracts were not tendered periodically.**
- **Route information supplied by bus operators was not verified to ensure the accuracy of the figures presented.**

*PAYROLL TRANSACTIONS*

**During our examination of selected aspects of payroll administration, we noted:**

- **Controls over payments for overtime and supply teaching were weak.**

## Comments on Cross-Ministry and Special Audits

*BUDGETING PROCESS*

**The 1988 budgeting process revealed some weaknesses. Specifically:**

- **there were an excessive number of budget transfers and insufficient evidence that all transfers were properly approved.**
- **procedures were inadequate to ensure that one-time budget infusions were identified and excluded from subsequent budgets.**

**However, we noted a significant reduction in budget transfers in 1989 and significant improvements in the budgetary process, including a detailed budget manual.**

*OTHER MATTER*

**The Board has in recent years been slow in studying and taking action to reduce the number of under-utilized schools.**

COMMENTARY

*PURCHASES*

### Overview

For the year ended December 31, 1989, expenditures for the Lakehead Board of Education were $27 million excluding payroll. Typical expenditures included school, office, and maintenance supplies as well as student transportation.

### Compliance with Procedures Not Evidenced

The Board's procedure manual requires three written bids for purchases costing between $1,000 and $5,000. For purchases over $5,000, formal tenders are needed.

We tested 46 purchase transactions in the 1988 and 1989 fiscal years for compliance with these policies and procedures.

For the ten items in the $1,000 - $5,000 range:

- **2 were purchased without the required quotes;**
- **while we were informed that 3 others were purchased based on quotes, there was no documentation supporting this.**

For the 36 items in the over $5,000 range:

- **9 were not formally tendered but were purchased based on written bids received;**
- **6 were not formally tendered nor were written bids received.**

Although we were reasonably well satisfied with management's verbal explanations for the lack of quotes, prudent business practice requires that the reasons be documented at the time the transactions are made.

The tender log book should also be enhanced. The log book did not contain sufficient information to demonstrate that proper tendering was performed or that contracts, once awarded, were adequately monitored.

### Awarding of Transportation Contracts Complied with Policies

Transportation expenditures for the Board during the 1989 fiscal year totalled over $7.3 million. Approximately 65 per cent of this total, or $4.7 million, was funded by the Ministry of Education. The Board has contracts with 13 operators for 208 buses, vans and cabs. Approximately 9,850 students are transported a total of 18,000 kilometres daily.

All contracts are presented to the Trustees for approval. Each year, Administration performs an analysis of cost increases.

**The process for costing and awarding transportation contracts complied with approved Board policies and procedures.** This process included surveying similar school boards to determine if their process and cost data was comparable.

**We reviewed the surveys and concluded that the Lakehead Board's costs were reasonable in relation to comparable boards.**

### Transportation Contracts Not Tendered

Administration informs busing contractors how much they are willing to pay. Existing busing operators under contract are given the opportunity to service existing routes before other companies can take them over. When a new route is added, the closest operator has the right of first refusal. This process is used by many boards across the Province.

The rationale for not tendering is that tendering would create a low-cost competition at the expense of safety and reliability. **However, tendering can be a viable alternative provided that service and safety requirements are clearly specified in the request for proposal. Moreover, whenever competition is restricted, adequate regard for economy and fairness cannot be demonstrated.**

### Insufficient Testing of Route Information

The busing company is required to submit an information form for each route. This form contains key information regarding the variable costs of the route including daily kilometres (used in calculating fuel costs) and hours (used in calculating wages).

These costs represent a significant portion of the contract costs. **We found, however, that the route information was not verified by Administration to ensure the accuracy of the figures presented.**

Administration informed us that prior to 1987 these figures were tested on a random basis. However, an increased workload has since prevented such testing.

*PAYROLL TRANSACTIONS*

**Overview**

For the year ended December 31, 1989, operating salaries, wages and benefits totalled $75 million. The payroll system is run in-house, and employees are paid either bi-weekly or monthly.

We restricted our audit work to an examination of selected aspects of payroll administration, since the Board's external auditor had recently examined financial controls over the processing of payroll transactions.

**Improved Control over Payments for Supply Teaching and Administrative Overtime Required**

We examined controls over payments for overtime and supply teaching. **Our tests revealed that controls were not adequate to ensure all such payments were properly authorized and valid.**

We recommended that lists of officials authorized to approve overtime and time sheets of supply teachers for each school be maintained and referred to by the payroll department, and that all teacher absences be recorded and matched with time sheets prepared by supply teachers.

*BUDGETING PROCESS*

**Overview**

The budget is broken down into functions (such as Continuing Education and Transportation) which are further subdivided into decision units (such as Supplies and Equipment, Supply Teachers). For 1988, there were 22 functions and 110 decision units.

The budgeting process begins in October. The managers budget for and prioritize their needs. In December, the managers present their budgets to their Superintendents. The decision units are ranked in order of priority within department.

In January, the Superintendents present their budgets and defend them before the Executive Council, composed of the Director and all Superintendents. The packages are ranked in order of priority by the Executive Council and the preliminary budget is prepared. The budget is reviewed, debated and approved by the Board of Trustees.

**Weak Accountability for Budget Transfers**

Once the budget has been approved, funds can only be transferred from one approved decision unit to another through a formal budget transfer.

## Inspection Audit, Lakehead Board of Education

We reviewed the budget transfers for 1988 and observed the following:

- **Numerous budget transfers were made in 1988. The excessive number of transfers raised questions as to the accuracy and reliability of the approved budget.**

  In 9 of 22 decision units reviewed, the 1987 budgeted figures listed in the 1988 budget presented to Trustees did not agree with the trustee-approved 1987 budget.

- **9 of 15 budget transfers examined in detail lacked evidence of authorization by the Superintendent of Business.**

To enable Trustees to hold administration accountable for spending in accordance with the approved budgets, we recommended that:

- The Director of Education or Superintendent of Business approve all budget transfers.
- All budget transfers be summarized on the budget sheets submitted to Trustees.
- Trustees approve significant budget transfers.

**We were pleased to note the significant improvements made for the 1989 budget, including a budget manual and far fewer budget transfers.** Also, subsequent to our audit, a draft budget variance policy was developed and provided to us for review.

### Risk That One-time Infusions May Become Regular Budget Items

Each year the budget contains many items of a one-time nature. **There were no procedures in place to ensure that these infusions were excluded from subsequent budgets.** As a result, some could become part of the regular operating budget.

In one case, we received conflicting opinions from various Superintendents as to whether a $130,000 supplies expenditure was a one-time infusion or a regular operating budget item.

We recommended that one-time infusions be highlighted in the budget and approved by the Board to assist administrators and Trustees to evaluate the subsequent year's budget. We were advised that the Board has recently taken action in this regard.

*OTHER MATTER*

### Under-utilized Schools

Ministry of Education guidelines require boards to develop a school closure policy. In addition, under Bill 30, dealing with funding for the Roman Catholic Separate School system, public school boards are required to identify surplus schools and transfer such schools, where appropriate, to separate school boards.

## Comments on Cross-Ministry and Special Audits

The Lakehead Board's enrolment has declined by 11 per cent (more than 2,000 pupils) over the past eight years, resulting in surplus schools. For example, 14 of the Board's 51 schools have been under-utilized for at least five years. The average enrolment in these schools was only 40 per cent of capacity in 1989.

The Board's school closure policy identifies the steps to be taken by the Board from the identification of a school to the disposal of the site. The Policy states that a study for school closure will be undertaken whenever certain criteria, such as enrolment, are of concern. The process for school closure is a lengthy one, taking a minimum of one year.

**However, Administration has in recent years been slow to identify and study under-utilized schools. Ten should have been studied but were not.** For example, two elementary schools, 1.1 kilometres apart, had the following usage:

| | 1989 Enrolment | 1989 Capacity | 1989 Utilization |
|---|---|---|---|
| Crawford | 128 | 300 | 43% |
| Heath Park | 286 | 518 | 55% |

Consolidating these two schools would reduce the Board's operating costs.

**Trustees have also been slow in acting on the recommendations of studies completed by Administration.** For example:

- The Board was to have transferred an under-utilized secondary school to the Separate Board by June 1988. A consultant's study estimated that $1.7 million would be saved annually by transferring the school and the quality of education would not be jeopardized. Although the Board felt this estimate was high, they did feel that annual savings of at least $745,000 were possible. A 1983 study had also included closure of this school as one of several options the Board should consider. However, the school was not approved for transfer until January 1990 and then only after incentives from the Ministry of Education.

- In 1977, the Board determined the optimal size of an elementary school at 300 - 500 spaces. At that time studies were started for six schools which did not meet this criterion. To 1990, the Board had only taken action to consolidate two of the six into optimal operating schools. A 1989 study estimated that additional consolidation would save $246,000 a year.

**RESPONSE**

The Board's response on September 5, 1990 included the following comments.

PURCHASES

### *Compliance with Procedures Not Evidenced*

*"Although the auditor agreed that reasons are explained for lack of quotes, we agree that increased documentation is necessary. Increased documentation of quotes has been implemented in 1990. The addition of a buyer to purchasing staff September 1 will provide resources to cover this area.*

*"The tender log book has been enhanced . . . . . Further discussions will continue with regard to the amount of detail required."*

### *Transportation Contracts Not Tendered*

*"We disagree with this suggestion as we believe that tendering can create a monopoly, thus placing the Board in a weak bargaining position."*

### *Insufficient Testing of Route Information*

*"In the 1987-88 school year, there was an increase of 32 buses due to policy changes. This represented a significant increase in the workload and as a result route verification was not done. This year, however, with an increase in staff and enhanced computer capabilities, route information will be verified to ensure its accuracy."*

PAYROLL TRANSACTIONS

### *Improved Control over Payments for Supply Teaching and Administrative Overtime Required*

*"(*Regarding supply teachers*) we agree - a listing is currently in place.*

*"The development of an authorized signature list in September of 1990 will allow all overtime timesheets to be reviewed for the authorization of the appropriate member of staff.*

*"The implementation of new computer software and the continuation of efforts to computerize school offices will allow the Board to expect a pre-pay rather than a post-pay approach to the matching of supply timesheets and school absentee reports. Prior to the implementation of these procedures in 1991 - 92, enhanced manual procedures are appropriate."*

BUDGETING PROCESS

### *Weak Accountability for Budget Transfers*

*"Draft Variance Policy is being followed."*

### *Risk That One-time Infusions May Become Regular Budget Items*

*"Present Priority Budget process ensures infusions do not become part of regular operating budget."*

## Comments on Cross-Ministry and Special Audits

**2.12**
**Inspection Audit, York Region Roman Catholic Separate School Board, Ministry of Education**

The York Region Roman Catholic Separate School Board has 3,200 employees, including 2,100 teachers. The Board operates 52 elementary and 7 secondary schools for over 35,000 students. The Board's expenditures for 1989 totalled $209 million, of which $115 million was funded by the Ministry of Education.

SUMMARY

### SCOPE AND OBJECTIVES

Our audit of the Board assessed whether:

- purchases, including student transportation, were adequately controlled and were made in accordance with Board policies and procedures;
- payroll transactions were adequately controlled and complied with Board policies;
- the budgeting process was adequate as a control measure over Board expenditures.

### CONCLUSIONS AND FINDINGS

*GENERAL*

York Region has experienced explosive growth in recent years. From 1984 to 1989, student enrolment has more than doubled and the number of schools has increased from 33 to 59. As a result, annual debenture repayment charges for capital construction have risen from $2.7 million to $8.5 million over this period. These charges must be borne completely by local taxation.

At the same time, the Board has been relatively assessment poor. Only recently did the Government announce changes which will enable separate school boards to "receive a fairer share of the education taxes paid by the businesses and factories in each community."

**Our conclusions and findings should therefore be read in the context of a Board whose staff must devote an ever-increasing portion of their time to the challenges and problems created by high growth. Under these circumstances, the time available for maintaining and strengthening controls over assets and expenditures is certainly at a premium.**

*PURCHASES*

**Controls over purchasing were less than adequate. Specifically:**

- **Many transactions did not have evidence of quotes or formal public tender.**
- **Schools and departments often purchased goods and services directly, thus bypassing the purchasing department.**
- **The Board did not award school bus contracts based on the lowest tendered price.**

## Inspection Audit

## York Region Roman Catholic Separate School Board

- **Improvements in the management of bus routing could result in significant annual savings. For the routes we reviewed, more than $1 million was identified.**

*PAYROLL TRANSACTIONS*

**Financial controls over the processing of payroll transactions were satisfactory. However, we noted that if part-time teachers were paid on the same basis as other local boards, annual payroll savings of $265,000 could be realized.**

*BUDGETING PROCESS*

**The budgeting process was satisfactory. However:**

- **Setting of the local taxation rate was more dependent on the rate set by the Region's Public School Board than on the budgeting process.**
- **The Board continues to budget for a deficit, which is illegal under the Education Act.**

*OTHER MATTER*

**Some Ministry grants were not spent according to the terms approved.**

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COMMENTARY

*PURCHASES*

### Overview

For the year ended December 31, 1989, Board operating expenditures totalled $56 million excluding payroll. Typical expenditures include school, office and maintenance supplies and services.

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### Lack of Compliance with Purchasing Policies

During 1989, the Board issued 23,000 purchase orders. According to the Board's purchasing and tendering policy, quotations or tenders are required as follows:

- $5,000 and under - verbal quotations
- $5,001 to $25,000 - minimum 3 written quotations
- over $25,000 - public tender.

In all cases, Administration is to maintain careful documentation of quotes and tenders obtained and action taken.

We selected 52 purchases from the 1988 and 1989 fiscal years to test for compliance with the Board's policies. **For 27 purchases, staff did not comply with the policies, nor did they document why quotations were not obtained.** For:

- 2 purchases under $5,000, the required quotes were not obtained;

- 11 purchases ranging from $5,001 to $25,000, three written quotes were not obtained;

- 14 purchases over $25,000, public tendering was not done.

For example:

- For 1988 and 1989, the purchase of paper supplies was not publicly tendered as required, although for 1989 this purchase totalled $250,000. One written quotation was received for 1988 and three for 1989.

- In four separate purchases of computer equipment, each over $25,000, and totalling $335,000, no public tender was called.

- Three written quotations were received for a $102,000 purchase of tools and equipment. However, because the Board specified a particular name brand with no substitution, only one bidder could supply all of the equipment. There was no documentation as to why other brands of equipment were excluded.

- During 1989, payments to a contractor for janitorial services totalled approximately $62,000. The service was not publicly tendered. For 1990, a six per cent increase was given, again without tendering.

- In November 1988, one high school purchased $26,000 worth of sporting goods from one supplier without obtaining quotations. We noted another high school had negotiated a 12 per cent discount from the same supplier for similar merchandise.

### Purchasing Department Often Bypassed

For routinely acquired goods, such as paper and musical instruments, the purchasing department asks suppliers for quotations annually and prepares a catalogue of the lowest-priced suppliers. The catalogues are then distributed to schools and various Board departments. According to Board policy, all catalogue and other purchases are to be made through the purchasing department. Only emergency supplies and services may be ordered directly by schools or departments.

**We noted many instances where non-emergency goods and services were purchased without using the purchasing department.**

- We reviewed the invoices from one supplier listed in the learning materials catalogue who received approximately $125,000 in 1989.

  Only one-third of the purchases were for items listed in the catalogue. No competitive quotes were received for the other items purchased.

- We also compared invoices for musical instruments acquired in 1988 and 1989 to the musical instrument catalogues.

Approximately $30,000 worth of instruments were purchased that were either different models than those listed in the catalogue or items not listed in the catalogue. Where substitutions were made, the amounts paid for some instruments were as much as 25 per cent higher than those in the catalogue.

- A plastering company received over $100,000, with no competitive quotes, for repairs ranging from $400 to $7,000. Of this total, $36,000 was for work carried out without a purchase order. Similar examples were noted for other companies supplying electrical, air conditioning, alarm and lock services.

The purchasing department's involvement would enable the Board to take advantage of savings that result from the competitive process and bulk purchasing. As well, it would demonstrate fairness in the selection process.

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**School Bus Transportation**

*Cost-cutting Options under Review*

In April 1989, the Board approved a comprehensive transportation policy defining the roles and responsibilities of the users and providers of the transportation service.

In addition, at the conclusion of our audit, the transportation department informed us that it was studying several initiatives including:

- relying on public transit for some students;
- sharing routes with the York Region Board of Education; and
- starting and dismissing secondary school students early (in order to use the same buses for secondary and elementary students).

The transportation department informed us that these initiatives could substantially reduce the cost of school bus transportation. For instance, staggering secondary school opening and closing hours in order to re-use the same buses could save in excess of $1 million annually. In this regard, during the 1990/91 school year two schools will be sharing routes with the York Region Board of Education. From this initiative alone, annual savings to the Separate School Board are estimated at $75,000.

It should also be noted that the Board had one of the more generous transportation policies when compared to surrounding boards. The Board's students, particularly those at the elementary level, were generally required to walk shorter distances than students at other boards.

*School Bus Transportation Tendering Not Competitive*

Transportation expenditures for the Board during 1989 totalled over $14 million. Of this, $8.6 million was funded by the Ministry of Education. The Board used 14

operators for approximately 600 buses, vans and cabs to travel a total of 41,000 kilometres daily.

In 1988, the Board tendered for transportation services for the first time. **We determined that the process fell short of being competitive.**

- The Board did not do a complete analysis of the tenders submitted. For example, the Board did not request sufficient information from the bidders regarding the number of vehicles the companies were willing to supply at the tendered rates and the areas that the companies would service.

- **The Board did not award contracts based on the lowest tendered prices.** This resulted in companies generally receiving the same routes they serviced prior to the tender. The few changes made were unrelated to price, despite price differences that went as high as 20 per cent.

  We reviewed 83 of the 823 routes for the 1989/90 school year and determined that awarding the routes to the company with the lowest price would have resulted in savings of $55,000.

*Deficiencies in Contracts*

The Ministry requires that the Board and companies formally define their responsibilities for school bus services through a written agreement. We noted various deficiencies in the agreements for the 14 bus companies used during 1989. For example:

- Five companies lacked written agreements. Approximately $880,000 was paid to these companies in 1989 with one of them accounting for $710,000.

- The Ministry indicated the minimum requirements that should be included in a written agreement. These include "the seating capacity of the vehicle to be supplied, the route or routes, the distance per route, the frequency of trips, the school or schools to which the pupils are ultimately to be transported, and the estimated number of pupils."

  The Board's agreements did not specifically include any of these requirements. The contracts stated "the operator will supply the appropriate sized vehicles based on the estimated number of students on the route or routes." Because of this deficiency in the contract, grants were claimed based on buses supplied by the company. However, according to Ministry policy, the Ministry should only pay grants based on the size of bus the Board requests, not the size the company supplies.

*Overpayments of School Bus Bills*

We found errors in calculating the per diem rates to compensate for drivers' salary increases. These errors resulted in overpayments.

The transportation department was aware in October 1989 of these errors and informed the affected companies. However, the Board continued to pay bus companies per diem rates in excess of those specified in the contract.

## Inspection Audit

## York Region Roman Catholic Separate School Board

Overpayments to six companies from September 1989 to March 1990 totalled approximately $71,000. As of March 1990, recoveries totalling $16,000 had been received from one of the companies.

At the completion of our audit in April 1990, the inflated per diem rates were still being paid to four companies. We were advised that the Board intends to recover these overpayments, with interest.

*Bus Route Management Needed Improvement*

The Ministry requires that the Board plan routes to provide seating space for all school bus passengers. The Board plans routes using information received from schools on the number of eligible students entitled to transportation.

**We felt improvements in the Board's management of its routes and bus service would result in lower costs to both the Board and the Ministry.** The savings included in this section are the total savings to the Board and the Ministry.

- We compared the bus seats available on existing routes at 12 schools to the number of students eligible for 1989/90. For seven schools, the buses were not fully utilized. In six of these schools, the total bus capacity exceeded the number of eligible students by 10 per cent.

  **For the seven schools with excess capacity, we estimated potential total annual savings of up to $380,000 by eliminating unnecessary buses.**

- The agreement made with bus operators allows the transportation department to schedule "A" and "B" routes. That is, where routes are not too long, one bus can pick up and deliver two separate loads of students to the same school before classes start. This is generally more economical than having two separate buses pick up the students. At the time of our audit approximately 15 per cent of the vehicles ran a "B" route.

  However, more "B" routes were possible. We reviewed three high schools, and noted 16 routes that ran 30 minutes or less. These would allow sufficient time for the buses to complete both an "A" and "B" route. **Had "B" routes been used in these cases during 1989 instead of additional buses, total savings of approximately $200,000 could have been realized.**

- In November 1989, the transportation department conducted a one-day survey of each bus route. Drivers were asked to document the number of students that rode the bus on that day.

  The survey indicated that some buses were only filled to 60 per cent of capacity. Management informed us that some eligible students never used the transportation services and others only used it infrequently.

  The transportation department plans routes and bus sizes based on the number of eligible students living within transportation zones. Parents

and students are not surveyed annually to determine if they intend to use the transportation services on a regular basis.

During 1989/90, the Board provided sufficient vehicles to transport the approximately 23,500 students eligible for transportation. **If only five per cent of these students decline the Board's transportation services, the resulting reduction in bus requirements could save more than $400,000 annually.**

- In some instances, more than one small vehicle was used to pick up students when one larger bus, or other buses with available seating, could have been used. For example, **we reviewed the 30 routes operated by one company that provided only small vehicles to the Board and noted potential total annual savings of about $75,000 in four locations if larger buses were used.**

  We also reviewed the routes at five elementary schools. At one school there were two cases where a bus needlessly duplicated the route of a large bus which had extra capacity. **With better route planning a total of $45,000 could have been saved annually.** The Board stopped using these extra vehicles after our discussions with them and was planning to review all routes to eliminate duplication.

*PAYROLL TRANSACTIONS*

### Overview

For the year ended December 31, 1989, salaries, wages and benefits totalled $117 million. The payroll system is run by a bank, and employees are paid bi-weekly.

Our audit covered an examination of financial controls over the processing of payroll transactions and payroll administration.

**Overall, we found that payroll transactions were adequately controlled and complied with Board policies.** However, we noted areas where administration could be improved.

### Inequities in Work Experience Credits for Teachers

Teachers' salaries are based on a number of factors including the number of years of experience.

Part-time teachers are paid for their work according to the same salary scale as full-time teachers. If a teacher works half days all year, that teacher is still credited with a full year's experience. **This creates inequities, since teachers who have different amounts of experience are paid as though they had the same amount.**

We were advised that this has always been the practice at the Board. The teachers' Collective Agreement did not address the issue of crediting part-time experience for purposes of advancing on the salary scale.

## Inspection Audit

## York Region Roman Catholic Separate School Board

We surveyed seven other school boards including the York Region Board of Education. These boards all credit experience based on actual time worked. For instance, a teacher would have to work two years at half-time to get credit for one year's experience for salary purposes.

At the time of our audit, the Board employed 140 part-time teachers. **Based on an average saving of approximately $1,900 per teacher, the annual savings to the Board in 1989/90 would total approximately $265,000.**

*BUDGETING PROCESS*

### Overview

Annually, the Board prepares operating and capital budgets. The operating budget for the December 31, 1989 fiscal year totalled $172 million. The five-year capital budget was $400 million, with approximately $114 million pertaining to 1989.

### Budget Process Satisfactory

**The budget process was generally satisfactory. Administration provides the Board with the detailed information required to arrive at an annual budget. Budget discussions are held during many meetings. As well, Administration identifies various options to cut the budget and reduce the deficit.**

Our review of the budgeting process at the Board, did, however, indicate some matters of concern.

- Although management begins the operating budget process in September, the first draft is not presented to the Board of Trustees until after the new year has started. The final budget is not approved until early May, four months into the fiscal year. By that time, programs have already been started and expenditures incurred. We were advised that this is common throughout the Province.

  Part of the problem is that the Board's information system was untimely and inaccurate, causing delays in obtaining budget information. We were advised that the new accounting computer system in place for 1990 will speed up the budgeting process.

- **For both 1989 and 1990, the final budget determination and deficit were not specifically the result of the Board's budget process.** For instance, for 1990 the Board waited until the Region's Public School Board set its taxation rate at 10.82 per cent before setting its own rate at 11 per cent.

  According to the Board's projections, balancing the 1990 budget would have required approximately a 30 per cent school tax increase, instead of the 11 per cent approved by the Board of Trustees.

- **The Education Act states that school boards may not budget for a deficit.** If a Board subsequently incurs a deficit, the deficit amount must be included in the next year's budget. With the Minister's approval, the deficit may be financed through local taxation over a period not to exceed three years.

  **The Board of Trustees approved a budget with a deficit in 1989 and 1990.** These deficits were $2.5 million and $12 million respectively. The Board wrote the Ministry indicating that supplementary taxation would make up the shortfall and balance the 1989 budget. However, this did not materialize. The actual deficit for 1989 was $5.2 million. For 1990, the Board had not prepared a plan as to how the $12 million shortfall would be addressed.

*OTHER MATTER*

**Ministry Grants Not Spent As Approved**

- The Ministry provides funding for microcomputers used in classrooms under its Grant Eligible Microcomputer System (GEMS) program.

  The GEMS grant is approved and allocated based on the number of elementary and secondary students. In 1989, the Ministry approved $791,000 for elementary schools and $266,000 for secondary schools under its GEMS program.

  When the Board reported to the Ministry under the GEMS program, it indicated that the grant was spent as approved when, in fact, it was not. Instead, $245,000 was spent for elementary schools while $812,000 was spent for secondary schools. **If the correct information had been supplied to the Ministry the Board would have received approximately $400,000 less.**

- Under the Capital Grant Plan, the Ministry funds the Board for portable classrooms. In 1989, the Board purchased only 25 portables at a cost of $572,000, for which grants of $507,000 were received from the Ministry.

  The Board installed 19 portables at schools approved by the Ministry. Six portables were installed at schools which were not approved by the Ministry, including one at a school specifically declined by the Ministry. **As a result, the Board was not entitled to approximately $125,000 provided by the Ministry for these six portables.**

**RESPONSE**

The foregoing comments were included in a report dated August 31, 1990. As of the reporting deadline (September 14, 1990) no response had been received from the Board.

CHAPTER

3

# COMMENTS ON MINISTRY AND CROWN AGENCY AUDITS

# CHAPTER 3
# COMMENTS ON MINISTRY AND CROWN AGENCY AUDITS

## 3.1 Introduction

The comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ministry and Crown agency audits.

The comments on ministries were selected from the cyclical audits of ministries. The audits on which the comments are based were completed since our last Report and are listed in Exhibit 2.

The term Crown agency for the purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations. Agencies of the Crown and Crown controlled corporations are listed in Exhibits 3 and 4, respectively.

The annual attest audits of Crown agencies are primarily designed to express an opinion on whether the agencies' financial statements are presented fairly.

In addition to the attest audits, some agencies are selected by this Office for a broader scope audit. Typically, one of the more significant operational areas of the agency is reviewed for evidence of good management practices relating to economy, efficiency and/or procedures to measure effectiveness.

## 3.2 Inadequate Monitoring, Ministry Facilities for the Developmentally Handicapped, Ministry of Community and Social Services

The Ministry of Community and Social Services operates 11 facilities which house, feed and care for approximately 3,700 developmentally handicapped people. During the 1990 fiscal year, the Ministry spent approximately $260 million to operate these facilities.

### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit included discussions with Ministry officials and visits to three facilities. During the 1990 fiscal year, these three facilities had approximately 1,200 residents and spent $90 million or 35 per cent of expenditures for all 11 facilities.

We assessed whether the Ministry:

- ensured that funds were well spent by its facilities; and
- monitored the operations of its facilities sufficiently to determine the adequacy of care and services.

#### CONCLUSIONS AND FINDINGS

*FACILITY SPENDING*

**The Ministry did not ensure that funds were well spent by the facilities.**

- **Despite having 1,500 fewer residents than ten years earlier, the facilities had essentially the same number of employees.**

## Comments on Ministry and Crown Agency Audits

*ADEQUACY OF CARE AND SERVICES*

**The Ministry was not monitoring the operations of its facilities sufficiently to ensure that developmentally handicapped persons were receiving adequate care and services.**

- **There were no inspections of facilities.**
- **While reported abuses were dealt with promptly and decisively, evidence suggested that some resident abuse was not reported.**

*OTHER MATTERS*

**Land and buildings were under-utilized. One facility had 260 acres of land which was last used in March 1986.**

**Contrary to Government policy, over $1 million earned annually from workshop and canteen operations was not being remitted to the Treasurer of Ontario.**

### BACKGROUND

In the 1990 fiscal year, the Ministry provided varying degrees of support to approximately 33,000 developmentally handicapped people. There were 8,000 people in nursing homes and institutions, 3,700 of whom, including 130 children, were in the 11 facilities operated by the Ministry. These facilities employed over 6,000 staff.

In 1974, the Province made a commitment to provide community living alternatives for developmentally handicapped people. Since then the Ministry has encouraged and supported programs which enable them to live as independently as possible in the community. The Ministry's policy and long-term plans are outlined in a document released in May 1987 entitled "Challenges and Opportunities: Community Living for People with Developmental Handicaps." The policy states that "institutional living is not a viable service model for the future." By 2010 the Ministry expects to have transferred all residents to community-based residences.

By 1994, the Ministry plans to close three facilities housing about 450 residents. By the same date, it also expects to have transferred another 550 residents from the remaining eight facilities to community-based residences.

The Ministry has set targets for transferring residents to the community. The three facilities visited have kept up with these targets in spite of the large numbers of people now living at home who are waiting to be placed in community-based residences. The Ministry as a whole has exceeded the targets established under its long-term plans.

## Community and Social Services

## Ministry Facilities for the Developmentally Handicapped

COMMENTARY

*FACILITY SPENDING*

### Staffing

*Questionable Staffing Levels*

The Ministry has made several attempts to address staffing standards in its facilities over the past 15 years. With only standards used in the United States (updated in 1971 and most recently in 1981) to refer to, it was difficult, if not impossible, for facilities to determine if they were operating efficiently. There was no basis for establishing meaningful budgets. Funding was simply based on the previous year's budget plus an increase to cover inflation.

In 1979 and 1989, the 11 facilities had the following staffing levels, residents and salary costs:

| | As at Jan. 31, 1979 | As at June 1, 1989 | Increase (Decrease) |
|---|---|---|---|
| Direct Care Staff | 2,910 | 2,980 | 70 |
| Professional Staff: | | | |
| Ministry | 840 | 885 | 45 |
| Ministry of Education | 165 | 0 | (165) |
| Administrative and Support Services Staff | 2,230 | 2,300 | 70 |
| | 6,145 | 6,165 | 20 |
| No. of residents | 5,230 | 3,700 | (1,530) |
| Salary and Benefit Costs (millions) | $ 110 | $ 220 | $ 110 |

**As the table illustrates, despite a 29 per cent decline in the resident population over the ten years, the number of staff essentially remained constant.** Staffing costs per resident rose consistently, due to salary increases and a declining resident population, from $20,000 per resident in 1979 to almost $60,000 per resident in 1989 (or $30,000 per resident in 1979 dollars).

*Interpretation of Staffing Study Results Questionable*

In December 1989, the Ministry completed a staffing study. We reviewed the factors which, the study suggested, supported current staffing levels. Although these factors in themselves supported higher staff levels, we believe they were more than offset by the decline in resident population.

- The study stated that there was an increase in the proportion of clients with greater care needs. It indicated that the greater the developmental handicap, the more care and therefore the more staff needed.

We noted that while the proportion of clients with greater care needs had increased since 1981, the number of clients in every functional category had declined in the three facilities visited. The total resident population in the three facilities declined from 1,900 in 1981 to 1,200 in 1989. The number of profoundly handicapped people dropped from 450 to 380 in the same period.

- The study indicated that an increase in the number of programs for residents such as physiotherapy, recreation, training in independent living, etc. supported an increase in staffing levels.

  We reviewed the hours of programming given to residents in the two facilities that maintained such statistics. In one, the average number of hours of programming per resident increased from 33 a week in 1980 to 40 a week in 1989. However, total programming hours decreased by over 300,000 a year.

  At the second facility, programming hours per resident decreased from 37 a week in 1983 to 34 a week in 1989. Total programming hours decreased by almost 400,000 a year.

- The study also indicated that there were more excursions into the community, placing added demands on direct care and transportation resources. However, 9 of the 16 direct care staff we interviewed said that the total number of visits had remained the same or decreased.

*Inconsistent Staffing Levels among Facilities*

In reviewing overall staffing levels, we noted the following differences among the Ministry's 11 facilities as of June 1, 1989:

- Although the average staffing ratio was 1.7 employees for each resident, ratios ranged from 2.2 at the smallest facility (approximately 70 residents) to 1.4 at the largest facility (approximately 850 residents).

- Staffing costs per resident, which averaged $60,000 for the year, ranged from $45,000 in the facility with 850 residents to $85,000 in the facility with 70 residents.

- A facility in central Ontario with approximately 100 fewer residents than one in eastern Ontario had 60 more staff. Although the physical layouts were different, the two centres had similar objectives, client profiles and ward-type settings.

Some facilities had fewer residents per ward than others, but the Ministry had not quantified the effects of this or other variables.

## Community and Social Services

## Ministry Facilities for the Developmentally Handicapped

*ADEQUACY OF CARE AND SERVICES*

### Overview

The facilities provide personal care (feeding, dressing and bathing residents), medical care, behavioural modification, and social and recreational activities. They also teach basic skills such as grooming and table manners and survival skills for community living such as telephone and public transit use, shopping and self-medication.

These services are designed and delivered predominantly by college-trained counsellors supported by other professionals such as nurses, doctors and psychologists.

### Care Given by Facilities Not Monitored

A facility inspection process would provide assurance that facilities were giving adequate care to their residents. **However, the Ministry did not inspect facilities.**

We were informed that a peer review process did exist at one time but was discontinued in the mid-1980s. Teams comprised of a cross-section of knowledgeable people from the Ministry and facilities used to periodically review all operating aspects of a facility, including resident care. Deficiencies noted by the review teams were reported to the head office and the facilities for corrective action.

The last audit of a Ministry-operated facility was conducted by the Ministry's Comprehensive Audit and Review Branch in 1985. This and prior audits were limited to financial and policy compliance issues and did not assess the area of resident care.

The Ministry periodically inspects certain community-based homes. We recommended that the Ministry perform similar inspections of its own facilities.

### Reporting of Resident Abuse Questionable

Facility residents are often completely dependent upon Ministry staff to provide even the most basic care. Many must be fed, dressed and bathed by staff; many cannot talk or otherwise communicate their needs. Family contact can be infrequent and some residents have no visitors from outside. Because of the behavioural difficulties of some residents, such as self-injury, aggression, fire-setting, etc., many wards are locked 24 hours a day.

Thus, residents are particularly susceptible and vulnerable to abuse. Facility staff need to exercise good judgement and patience at all times.

In October 1989, the Ministry updated its 1978 "Guidelines for the Reporting, Investigation and Follow-up of Allegations of Abuse in Facilities for Developmentally Handicapped Individuals." The new comprehensive guidelines were prepared in consultation with the Ontario Public Service Employees Union.

The guidelines require employees who witness, or have knowledge of, an incident of abuse or suspected abuse to report the incident immediately to their supervisors. Those failing to do so could be subject to disciplinary action. Administrators in two of the facilities we visited supported the initiative by putting letters of commendation on the personnel files of employees reporting abuse to management.

**There were indications that abuse, once reported and substantiated, was dealt with by facility and Ministry management promptly and decisively.** For example, in the years 1986 to 1989 in the three facilities visited, 25 employees faced disciplinary action for abusing residents and were either reprimanded, suspended, dismissed or charged with criminal offences.

However, there were also instances where disciplinary action was not taken against employees failing to report abuse. A 1989 Ministry investigation revealed that three counsellors had failed to report 17 separate incidents of abuse involving physical assault of residents over a one-year period. None of the counsellors were subjected to disciplinary action as required by facility policy.

The three facilities we visited recorded the following number of reported abuse cases during the years 1986 to 1989. Many of these were serious, including sexual and physical assault of residents.

| Facility | No. of Residents | No. of Abuse Cases |
|---|---|---|
| #1 | 70 | 3 |
| #2 | 430 | 31 |
| #3 | 740 | 6 |

The accuracy of these numbers was questionable. Facility #3 destroys all evidence of unsubstantiated abuse allegations because of Union concerns that not doing so might affect the future of an innocent employee. However, administrators of the first two facilities, whose employees are also Union members, advised that they keep all records in their confidential files.

**In reviewing reports of Ministry investigations, we also noted circumstances which suggested that some abuse was not reported:**

- At facility #2, 18 of the 31 cases of abuse were found to be valid. Of these, 40 per cent were reported by college students working temporarily at the facility. This suggested that permanent employees were probably not reporting all abuse.

- Two investigations noted concerns among staff witnesses about possible persecution and harassment from other staff for reporting abuse. Some employees could have been reluctant to report abuse because of concerns for their own safety.

- Another report noted some evidence that employees had not adequately questioned, communicated or followed through on allegations of abuse.

Constant vigilance on the part of employees, and immediate support from management, are vital in ensuring abuse of residents is kept to a minimum.

*OTHER MATTERS*

**Under-utilization of Assets**

The Ontario Government, through the Ministry of Government Services (MGS) or the Ontario Development Corporation (ODC), owns the land and buildings occupied by the facilities. Once land and buildings are declared surplus by the Ministry of Community and Social Services, MGS or ODC decides on disposal or alternative use.

**In the three facilities we visited, land and buildings were under-utilized:**

- One facility had a group of 25 family homes. Only 12 were used to house residents; the other 13 were used for storage or offices.

  There was enough unused space in the facility's main building nearby to meet most of its storage and office needs. This would allow better use to be made of the 13 houses. For instance, we were informed that the local government suggested they could be used for low income housing.

- **A second facility had 260 acres of land last used for farming in March 1986.** The land had not been officially declared surplus by the Ministry. Consequently, despite considerable interest in this property from various local and Provincial Government organizations, it remained unused.

- The third facility had two empty buildings with over 30,000 square feet of space that the Ministry had not declared surplus, although it had informed MGS that it was not used.

As of the date of our audit, the Ministry had not transferred control of any of these properties.

**Unreported Revenue and Expenses**

**The three facilities visited collected gross revenues in excess of $1 million annually from their workshop and canteen operations. However, contrary to Government policy, they did not remit these revenues to the Treasurer of Ontario.**

Instead, amounts collected were deposited in local bank accounts and used to pay workshop and canteen-related expenses. Funds remaining in the bank accounts were retained by the facilities. We were concerned that this situation provided opportunities for misuse of funds.

In 1985, the Ministry's Comprehensive Audit and Review Branch recommended that the Ministry develop guidelines relating to the reporting of workshop and canteen operations. We were informed that although the recommendation had been accepted, the Ministry had not developed any guidelines.

RESPONSE

The Deputy Minister's response on September 14, 1990 included the following comments which were specific to the findings and conclusions in our report.

FACILITY SPENDING

### *Staffing*

Questionable Staffing Levels

*"The Auditor's analysis presents a comparison of staffing levels between 1979 and 1989 and comments that 'despite a 29 per cent decline in the resident population over the last ten years, the number of staff essentially [have] remained constant.' This simple comparison of the number of staff between the two points in time needs to be understood in the context of important changes in the operation of Schedule I* (Ministry operated) *facilities over the last decade.*

*"The way facilities operate now in comparison to 1979 reflects a shift in programming for developmentally handicapped people, one which recognizes the rights of these individuals for support in trying to achieve their full potential. This potential is much greater than it was believed to be in the early 1970's and has profoundly affected how the facilities provide services to their residents.*

*"The following points illustrate some changes in facility operations and their very direct impact on staffing requirements:*

- *As a matter of policy, the Ministry has improved the quality of life for residents at Schedule I facilities since 1979. For example, Huronia Regional Centre accommodated 60 residents in a single ward in 1979. None of these residents had personal clothing, personal cupboard space or a private washroom or shower area. Each resident received an average of 45 minutes of programming per day. At any one time, four staff cared for all 60 residents.*

- *Today, Huronia Regional Centre has apartment-style living units, each of which accommodates eight residents. Each single four-bedroom unit has a self-contained kitchen, a living room equipped with modern furniture, two bathrooms with wheelchair access to the shower and therapeutic tub with lifts, and a large outside patio. Each resident receives at least one-half a day outside the unit for structured programming, in addition to other activities such as community outings. At any one time, two staff care for the eight residents in a unit.*

- *Until the 1980's, a significant number of residents of Schedule I facilities were high-functioning, with a very slight or moderate degree of mental retardation. These residents were, in effect, a supplementary unpaid labour force within the facilities. They helped in the day-to-day operation of the facilities, assisting in areas such as the kitchen, laundry and maintenance; they even helped direct-care staff look after other residents on the wards. The Ministry estimates that over 500 high-functioning residents performed these tasks at Ontario facilities in 1979. Not only does the Ministry's philosophy no longer support the large-scale involvement of residents in these types of activities, most high-functioning clients no longer live at facilities as they have moved into the community.*

*In comparing only the numbers of paid employees at facilities between 1979 and 1989, the Auditor has overlooked a significant reduction in the available workforce which has accompanied the change [in] the Ministry's operating philosophy and the subsequent reduction in the number of facility residents."*

Interpretation of Staffing Study Results Questionable

*"The Ministry disagrees with the Auditor's conclusion that the factors identified in the Ministry's 1989 staffing study indicate a need for reducing staffing levels at facilities. The Auditor has only examined each factor in isolation without examining how these factors, when considered together, might affect staffing needs.*

*"Since 1979, the proportion of residents who require greater care has increased, placing additional demands on staff time and attention. For example:*

- *A large proportion of residents currently in facilities exhibit high-risk behaviours. For example, 81 percent of those residents admitted to facilities have a dual diagnosis of mental retardation and psychiatric illness. As well, 84 percent of residents have at least one diagnosis present in addition to the developmental handicap (e.g., deaf-blind, physically disabled, multiply-handicapped).*

- *The increasing number of mobility aids for residents demands additional staff attention. In 1979, Huronia Regional Centre had an estimated 20 manual wheelchairs for the use of all non-ambulatory residents; consequently, most of these residents remained in their wards. Today, Huronia Regional Centre has 177 manual wheelchairs and 37 electric wheelchairs and scooters which provide increased mobility for residents. Such mobility requires increased staff attention (e.g., to lift residents in and out of wheelchairs, to push manual wheelchairs).*

- *The average age of residents in facilities has increased over the last decade. In 1979, about half of the residents in facilities were under 25 years old. In 1989, more than 80 percent of the residents in facilities were over 25 years old. By 1989, the proportion of residents over 56 years old had increased by five percent.*

  *Recent advancements in medicine and a longer life expectancy mean that older and elderly residents live longer and require more care than their 1979 counterparts.*

*"The Ministry does not agree with the Auditor that greater staffing requirements resulting from the proportional increase in residents with greater care needs is balanced by an overall decrease in resident population. As has been discussed earlier, residents currently in facilities receive a much greater degree of attention than they would have in 1979, resulting from the Ministry's philosophic shift to meet the individual's needs and to help achieve the individual's full potential.*

*"The Ministry also questions the Auditor's suggestion that decreased programming hours indicate a need for decreased staffing. The decrease in total programming hours noted by the Auditor is largely a result of residents moving out of the facilities since 1979 and has no direct correlation to staffing requirements for the particular programs offered to facility residents.*

*"An evolution in the approach to programming over the past decade, rather than a decrease in programming hours, has the more significant impact on staffing requirements. For example:*

- *In 1979, programming at facilities involved large groups of residents who were supervised by only a few staff, as was the case in workshops. Since that time, the type of programming has gradually moved toward smaller groups of residents receiving attention from a large number of staff, as is the case in specific skills training programs. This more staff-intensive programming allows each resident to receive more personal attention, care or training from staff.*

*"The Ministry acknowledges that the number of 'excursions' into the community by large groups of 20 or 30 residents has declined. However, these excursions have been replaced by trips into the community by individual residents, which require more staff. For example, while a busload of 20 residents could be supervised by five staff, an individual resident's trip into the community would require the attention of at least one staff person and often two when taking transportation into account."*

Inconsistent Staffing Levels among Facilities

*"While the Ministry recognizes that staffing ratios and costs vary among Schedule I facilities, the Ministry does not consider the differences to be improper. There are many factors influencing staffing ratios and costs and these factors differ depending on the individual facility.*

*"Some of the factors influencing staffing ratios and costs among facilities include the number of residents being served, the number of residents with special direct-care needs, the types of living units and the number of residents in each type, the amount of living space in each residence and the minimum staffing requirements for each residence, the number of day program clients and the physical lay-out of the facility (e.g., a single self-contained building or several smaller buildings spread out over a large area).*

*"For example:*

- *The facility which the Auditor states is serving 70 residents (with a staff-to-resident ratio of 2.2:1 and a staffing cost of $85,000 per resident) also provides vocational services to 40 community residents for five days per week.*

  *If these 40 additional people are taken into account, the staff-to-resident ratio would be between 1.8:1 and 1.4:1 and the staffing cost would fall between $14,000 and $30,000 per resident."*

ADEQUACY OF CARE AND SERVICES

### *Care Given by Facilities Not Monitored*

*"While the Ministry does not formally inspect Schedule I facilities, there are several formal and informal processes in place which ensure that the care of residents is adequate.*

*"The following points describe a few of these processes:*

- *Each of the 11 facilities has an individual program plan in place for each resident to meet that resident's specific needs. These individual program plans are reviewed by facility management at least once a year. The facility adjusts how it provides service to each resident on the basis of these reviews.*

- *Licensing procedures of facility programs take place where appropriate under the Child and Family Services Act.*

- *The Public Inspections Panel under the Ministry of the Attorney General periodically and formally inspects Schedule I facilities and provides a report of the inspection to this Ministry. This Ministry responds to and follows up on the report.*

- *Qualified professionals regularly hold Occupational Health and Safety inspections of facilities (e.g., fire safety, dietary requirements). The Ministry takes whatever action is required in response to these inspections. In addition, facilities are inspected regularly for adherence to municipal fire and health regulations.*

- *Parents, advocacy groups and staff provide a continuous, informal monitoring process of the quality of care in Schedule I facilities.*

*"The Ministry acknowledges the importance of ensuring a high quality of care to residents in the facilities. In fact, the Ministry has already developed a peer review process for its* Standards for the Use of Behavioural Procedures *in Schedule I facilities, which represents an aspect of quality of care. The Ministry will use this new process as a pilot project to examine the benefits of an overall peer review process for the facilities."*

### *Reporting of Resident Abuse Questionable*

*"The Ministry is pleased that the Auditor recognizes the Ministry's commitment to reducing the incidence of resident abuse and to acting promptly and decisively when allegations of resident abuse are reported.*

*"However, the Auditor's suggestion that the Ministry neglected to adhere to its policy regarding disciplinary action against some employees who failed to report abuse is misleading. The Ministry's policy states that employees who fail to report abuse could be subject to disciplinary action; however, this is not a requirement and is left to the judgement of facility management who are most familiar with the particular case. For example:*

- *Facility management thoroughly investigated the case in which three counsellors failed to report 17 separate instances of abuse and decided that disciplinary action against these counsellors was not appropriate within the context of the case.*

*"(The Auditor) implies that many serious abuses are unreported in facilities. However the only evidence which the Auditor brings forth to support this implication is the number of substantiated allegations of abuse reported by college students at one facility which, according to the Auditor, 'suggests that permanent employees [are] probably not reporting all cases of abuse.' The Ministry has determined that the Auditor's evidence is not complete:*

- *The Ministry carefully reviewed the Auditor's claim that 40 percent of substantiated cases of abuse at one facility were reported by college students and has determined that students on supervised work placements at this facility reported 24 percent of the substantiated cases of abuse over a three-year period. Since students on supervised work placement represent 24 percent of the facility's direct-care workforce, student reporting of abuse at this facility is not disproportionate.*

*"The Ministry believes that staff reluctance to report abuse because of concerns for personal safety is minimal. However, the Ministry already has in place systems which provide support for witnesses to the greatest extent possible in each case.*

*"The Ministry disagrees with the Auditor's suggestion that the accuracy of statistics on resident abuse is questionable. While some facilities maintain statistics on substantiated allegations of abuse only, other facilities maintain statistics on both substantiated and unsubstantiated allegations of abuse. The fact that facilities collect statistics differently in no way implies that the information is questionable. The Ministry acknowledges that the collection of resident abuse statistics is inconsistent between facilities and will review its procedures in record retention for all cases of abuse allegations.*

*"As the Auditor has recognized, the Ministry is committed to dealing effectively and promptly with all instances of alleged abuse. In the single case noted by the Auditor in which this may not have happened, the facility has reviewed the Ministry's policies and procedures with the appropriate staff to prevent any recurrence."*

OTHER MATTERS

### *Under-utilization of Assets*

*"The Ministry questions the Auditor's finding that land and buildings at Schedule I facilities have been underutilized. For some time, the Ministry has been discussing potential uses for existing and future unused facility property with the Ministry of Government Services (MGS), the Ontario Development Corporation, local governments and others.*

*"As the Auditor has noted, in each situation the Ministry discussed the use of facility property with either MGS or the Ontario Development Corporation. For example:*

- *Since 1986, the Ministry has negotiated the use of 260 acres of potentially surplus land at Huronia Regional Centre with MGS and several other interested parties, which culminated with the Province's recent announcement that 53 acres of this property would be used for the future site for the headquarters of the Ontario Provincial Police. Discussions continue concerning the remaining 207 acres.*

## Community and Social Services

## Agencies for the Developmentally Handicapped

*"The Ministry continues to work with MGS to ensure that the Province makes the most effective use of all facility property and buildings once the Ministry no longer requires these premises. MGS chairs an inter-ministerial committee at the provincial level to review potential uses for facility property before and following declaration of surplus. At the local level, each facility administrator chairs a committee to examine the required uses of facility property and buildings in the future and to suggest potential alternate uses to the inter-ministerial committee."*

### *Unreported Revenue and Expenses*

*"The Ministry recognizes that revenues from facility workshop and canteen operations are not remitted to the Treasurer of Ontario as required by Government policy. Facilities use these revenues to purchase supplies and other materials for the continuing operation of the workshops and canteens, as well as for resident-focused social events.*

*"The Ministry will enter into discussions with the Treasurer of Ontario to resolve this situation. Subject to the outcome of these discussions with the Treasurer, the Ministry will review its internal policies controlling the expenditures and revenues involved in facility workshop and canteen operations."*

### 3.3 Inadequate Monitoring of Agencies for the Developmentally Handicapped, Ministry of Community and Social Services

Under the Developmental Services Act, grants are provided to ten non-profit agencies for the care of developmentally handicapped persons in institutions and community homes. In the 1990 fiscal year, the Ministry paid $48 million in operating and capital grants to these agencies.

#### SUMMARY

#### SCOPE AND OBJECTIVES

We audited three agencies which spent approximately 50 per cent ($23 million) of the total agencies' grants in the 1990 fiscal year. Our audit also included the Ministry's head office and two area offices.

We assessed whether the Ministry:

- ensured that funds were well spent by agencies; and
- monitored the operations of agencies sufficiently to determine the adequacy of care and services.

#### CONCLUSIONS AND FINDINGS

*AGENCY SPENDING*

**The Ministry did not ensure that funds were well spent.**

- **The need for constructing two buildings costing $8 million was questionable.**

- **Goods and services were often purchased without a competitive selection process. One agency had used a food company's services for 18 years, at an annual cost of over $1 million, without competitive tender.**

- **Two agencies improperly retained over $3 million in surplus funds. One of the agencies also used substantial operating funds for capital acquisitions.**

- **The Ministry could not explain the significant variance in operating costs between agencies.**

*ADEQUACY OF CARE AND SERVICES*

**The Ministry was not monitoring agency operations sufficiently to ensure that developmentally handicapped persons were getting adequate care and services.**

- **Agencies were not reporting serious occurrences to the Ministry. For example, one agency did not inform the Ministry of several deaths.**

- **Ministry inspections indicated compliance when deficiencies in care actually existed.**

## BACKGROUND

The Ministry funds ten agencies to operate facilities for developmentally handicapped persons. These agencies are non-profit organizations managed by a board of directors consisting of community representatives. The agencies provide care for approximately 800 developmentally handicapped adults and children, 670 in institutions and 130 in community homes.

The operations of the agencies are fully funded by the Province except for capital expenditures which are cost-shared between the agency and the Province. The Province makes a partial recovery from the Federal Government in accordance with the Established Program Financing agreement and the Canada Assistance Plan.

The Ministry is responsible for monitoring the operations of the agencies through area offices. In addition, several support branches at the head office in Toronto are responsible for developing policies and procedures governing the provision of care to the developmentally handicapped.

## COMMENTARY

*AGENCY SPENDING*

### Need for Facility Expansions Questioned

Under its long-term policy, the Ministry plans to close both Ministry and agency-operated institutions, and integrate residents into independent, community-living environments. The residents will be supported by locally available services in the community.

According to the Ministry, new major capital projects should only be undertaken if:

- the capital expenditure has to be made to avoid plant deterioration and to ensure the safety of residents; or

- a community need, as opposed to the agency's own, has been identified to justify the costs involved.

*Resource Centre*

- **In March 1989, one agency completed construction of a resource centre to relocate the agency's offices and support services from leased premises. The centre cost approximately $7 million.** The Ministry approved and provided direct capital funding of $4 million. The balance was paid by the agency, although primarily from Ministry operating grants.

  The building has a total area of about 55,000 square feet. The agency's 120 administrative and professional staff occupy office space of approximately 21,000 square feet. The remaining 34,000 square feet are divided equally between common and support service areas.

- At the agency we examined a 1985 architectural proposal. The proposal recommended that a Ministry of Government Services building, used by the agency as storage space, be renovated to provide office space. The architects noted that the building, with an area of 20,000 square feet, would provide the necessary office space for approximately $1.4 million.

  We were informed by the agency's senior management that had they been asked by the Ministry, they might have adopted this proposal. However, the Ministry indicated that it was never made aware of the proposal.

- The support services area is largely made up of an x-ray facility, a kitchen, a hydrotherapy pool and classrooms. No feasibility study was done to justify the need for such facilities within the community.

  During our audit we observed that many of these facilities were under-utilized. For example, the hydrotherapy pool was being used only 30 per cent of the available time.

  We also questioned the need for the x-ray facility, laboratory and pharmacy serving only the agency's residents. The other agencies visited used community facilities for their residents' x-rays, blood tests and medications, etc.

  The agency had recently begun looking for other potential users within the community. However, we were told by the only other local community association for the developmentally handicapped that its service needs were already being met by existing community resources and that it had no intention of using the centre's facilities.

- **Given the availability of alternative office space and the under-utilization of the centre's facilities, we questioned the need for the centre.** We also observed that the agency was still housing more than 100 residents in a sub-standard nineteenth century building. In our opinion, the money spent to build the centre could have been better used to integrate some of these residents into the community.

*Sensory Stimulation Centre*

- **In July 1987, one agency completed construction of a centre to provide sensory stimulation and development programs for approximately 100 developmentally handicapped persons.** The centre consists of a large open gymnasium and three small assessment rooms. **It cost over $1 million** including direct capital funding of $600,000 from the Ministry. The balance was paid by the agency, again primarily from Ministry operating grants.

- In October 1985, the Ontario Association for Community Living had questioned the approval of this project because it appeared inconsistent with the Ministry's long-term policy. In response to this concern, the Minister had requested that the area manager meet with the agency's Board of Directors to determine whether the Board might reconsider its decision. In March 1986, the Board received Ministry approval and proceeded with construction of the centre, citing the need for more programming areas. However, the Board had not assessed the community need for such a centre.

- A study by the agency, in November 1988, concluded that the centre was, on average, utilized much less than half the time. The study projected that the long-term resident population at the agency would decrease significantly each year. A public panel that inspected the agency in 1989 also observed that the centre was under-utilized. Currently, only three non-residents use the services offered by the sensory stimulation centre. **Under the circumstances, we questioned the need for the centre.**

## Weak Controls over the Acquisition of Goods and Services

The agencies visited generally followed Ministry tendering guidelines when entering into building construction contracts. **However, they did not use a competitive selection process for purchases of most other goods and services.** For example:

- **One agency had been using a food service company since 1972. The contract, which totalled over $1 million annually, had never been competitively tendered.** In 1987, the food service company carried out an analysis which showed that the agency's per capita foods costs were the lowest of five hospitals surveyed. However, between 1987 and 1989, the agency's resident population declined by over 25 per cent, yet food costs had essentially remained the same.

In April 1988, the agency obtained a lawyer's opinion stating that there was no legal responsibility to tender for the contract. However, regardless of legal requirements, it would be prudent business practice to tender for purchases of such magnitude.

- Purchases of equipment were frequently made without tender. At one agency, purchases of food service equipment, vans, x-ray equipment and a photocopy machine totalling over $400,000 were not tendered.

  We were informed by the agency that it was not aware of the Ministry's tendering guidelines.

We also noted transactions where apparent conflicts of interest were not dealt with appropriately by the agencies.

- During the 1986 fiscal year, a firm was selected to provide architectural services for the construction of the $7 million resource centre. The architect's fees totalled approximately $500,000.

  In reviewing the selection process followed by the agency, we noted that a principal of the successful firm had served on the agency's Board for the preceding eight years. The firm had been chosen by a selection committee established by the executive committee of the Board. From a total of 14 respondents, the selection committee short-listed six firms and conducted 45-minute interviews with their principals.

  In accordance with the agency's by-law, the architect selected had declared a conflict of interest. In June 1987, the Ministry reviewed the conflict-of-interest situation. The Ministry concluded that the architect selection process had been fair and had met Ministry requirements.

  We were informed that the successful firm was selected on the basis of its size, experience, successful track record, etc. However, there were no written evaluations by the selection committee members comparing the firms or explaining specifically why this firm ranked highest. In view of the conflict of interest , we felt that extra steps should have been taken by the agency to ensure that a list of measurable criteria had been established and an independent evaluation completed by each committee member to support the decision.

- In 1974 a firm of architects was commissioned by an agency to prepare a master plan for the physical alteration of the agency's buildings. The firm was awarded two architectural design contracts; one in 1983 for $75,000 and the other in 1987 for $100,000. Both contracts were awarded without the benefit of a competitive selection process.

  The 1987 contract related to the construction of the sensory stimulation centre for over $1 million. A principal of the architectural firm was on a committee established by the agency's Board of Directors to research the need for the centre. Because of the continuous involvement of the architect, we questioned whether the need for the centre could be objectively assessed. Additionally, since there was no competitive selection process, we questioned whether the best value was received for the funds spent.

### Interest Income and Surpluses Not Recovered

At the beginning of each fiscal year, each agency is required to submit an operating budget to the Ministry for approval. The budget provides a detailed breakdown of the year's estimated expenditure. Once approved, operating grants are paid monthly, in advance, to the agency.

At the close of the fiscal year, each agency is required to submit to the Ministry an Annual Program Expenditure Report, certified by a licensed public accountant and the agency's Board of Directors. The Ministry uses this to verify and reconcile grants paid to the agency.

When actual expenditures are less than grants, Ministry policy requires recovery of the surplus. Similarly, Ministry policy states that interest income generated from Ministry funds will be used to reduce future grants to agencies.

However, the Annual Program Expenditure Reports at two of the three agencies visited did not include all operating surpluses and interest income generated from Ministry grants. Between the 1981 and 1989 fiscal years, we calculated such unreported amounts to be:

| | Operating Surpluses | Interest Income | Total |
|---|---|---|---|
| Agency A | $200,000 | $2,335,000 | $2,535,000 |
| Agency B | 246,000 | 591,000 | 837,000 |

**The two agencies treated these funds as their own.** In contrast, the third agency returned interest income and surpluses and retained only private donations and bequests.

During this period of eight years, agencies A and B completed several major capital projects costing approximately $13 million. According to legislation, agencies are required to fund at least one-third of capital expenditures with money raised from private sources. The agencies' share of these projects was almost $5 million. **However, over $3 million was paid out of operating surpluses and interest income that should have been returned to the Ministry.**

The ownership of operating surpluses and interest income generated from Ministry grants at Agency A was also questioned by the Ministry's Comprehensive Audit and Review Branch in 1988. At the time of our audit, the matter had not been resolved.

### Spending of Operating Funds Questionable

Ministry guidelines state that any capital items costing over $15,000 can only be cost-shared after separate review and approval by the Ministry. This is to ensure that Government funds are spent on the most urgent needs first.

**Our review of expenditures revealed that, over the years, Agency A had purchased numerous capital items out of operating funds, often without the knowledge of the Ministry's area office.** For example:

- The agency had paid $167,000 for vans and $70,000 for x-ray equipment out of operating funds during the 1988 fiscal year. The approved equipment budget for that year was $32,000.

  The agency's 1989 fiscal year operating budget included $86,000 for dietary equipment which should have been treated as a capital item. In addition, we reviewed a sample of expenditures incurred by the agency and found $190,000 in ineligible capital purchases. These included $78,000 for computers and $45,000 for a van.

  In spite of these purchases, the agency had operating surpluses of approximately $100,000 and $300,000 for the 1988 and 1989 fiscal years respectively.

- During a January 1990 meeting of the agency's finance/property committee, a member of senior management projected an operating surplus in Ministry-funded programs of $475,000. The member advised the committee that management had developed a prioritized list of capital replacements, major repairs and one-time expenditures that could be paid out of the operating surplus funds.

  In examining the list, we noted that the bulk of the $475,000 related to capital items, including over $235,000 used to purchase computer equipment. The Ministry's area office was not aware of the computer equipment purchase.

## Operating Costs Varied Significantly between Agencies

The cost of providing residential care services to developmentally handicapped clients is generally governed by their level of mental and physical disability. Almost 80 per cent of an agency's operating grant is spent on direct care, professional and administrative salaries.

**The Ministry had calculated the agencies' per diem rates or average service cost per day per resident. However, it had not assessed whether or not the rate at each agency was reasonable.**

The 1989 fiscal year rates for facilities at two of the three agencies we visited were:

| | $/day/resident | $/per annum/resident |
|---|---|---|
| Agency A | 167 | 61,000 |
| Agency B | 129 | 47,000 |

Comparisons with a third agency were not possible because its accounting records did not show the costs of operating facilities and group homes.

Agency A had the higher per diem rate even though most of its residents were less severely handicapped than those at Agency B. Since 1982 Agency B's per diem rate had increased over 30 per cent, after adjusting for inflation. Over the same period, the number of residents had declined by approximately 20 per cent. **Neither the Ministry nor its area offices were able to explain these anomalies.**

We recommended that the Ministry conduct a review of operating costs at all agencies to ensure that costs are reasonable.

*ADEQUACY OF CARE AND SERVICES*

### Serious Occurrences Not Reported

The Ministry requires the agencies to report serious occurrences, including all deaths, alleged abuses, and serious injuries.

We noted that in one agency, 15 residents died between January 1988 and December 1989. **The death rate was almost three times higher than the rate in other agencies and represented 15 per cent of the agency's residents. At the time of our field work, the area office's records indicated that it had received written reports on only five of the deaths. Subsequently, the Ministry advised us that information on six other deaths had been filed separately and stored temporarily on another floor at the area office.**

In reviewing the agency's medical committee minutes, we noted that many of the deaths had similar causes. Also, the minutes indicated that problems with feeding and nutrition frequently appeared to be contributing factors in these deaths.

As a result of our findings, the Ministry initiated an investigation in January 1990 into the 15 deaths. A preliminary report by the Ministry indicated that a comprehensive investigation was needed. A final report was expected by September 1990.

**At the three agencies visited, we noted that many other serious occurrences were not reported to the Ministry.** For example, we reviewed 10 per cent of nearly 1,000 incidents recorded by one agency between January 1988 and February 1990. **There were six serious occurrences, of which only one was reported to the Ministry.**

### Inspections Inadequate

The care of residents is governed by the Developmental Services Act. Residents who are under 18 years of age are also covered by the Child and Family Services Act. At the time of our audit, there were about 550 adults and 120 children living in the ten agency-operated institutions.

## Community and Social Services

## Agencies for the Developmentally Handicapped

The Child and Family Services Act requires the Ministry to license children's residences and periodically monitor the care provided to the children. These periodic inspections include a review of staff levels, staff development, plans of care, serious occurrences, medical and dental practices, and safety measures. Ministry inspections are conducted once every three years. In other years, the Ministry usually allows an agency to perform a self-inspection and submit a report to the Ministry.

Although the majority of residents were adults, there was no specific legislative or Ministry inspection requirement to ensure that adequate care was provided. Our visits to the agencies confirmed that adult only residences were not included in the Ministry's inspection process. Consequently, the Ministry did not know if there were problems with the quality of care provided in such residences. For example, although required by its own internal policy, one of the agencies had never performed feeding assessments for its adult institutional residents. Such assessments are important because many developmentally handicapped persons have trouble eating.

We were informed that certain inspections covered both children and adults since they were housed in the same residence. We noted several problems in two agencies where such inspections were performed.

- **The Ministry's inspection reports indicated that serious occurrences were promptly reported. However, such occurrences were seldom reported.**

- One inspection requirement was to check that residents had medical, dental, vision, and hearing examinations performed at least annually. However, in two agencies, many residents had not had a medical or dental examination in well over a year. In addition, in one of the agencies, most of the residents had gone more than ten years without a vision or hearing examination.

- **A Ministry inspection in 1989 indicated that the clients' nutritional needs at one agency were being adequately met. However, the agency had not assessed the nutritional needs of most residents.** Also, over the previous two years, the agency's medical committee had made many recommendations concerning client nutrition and care. **The Ministry's inspection had not identified or followed up on any of the committee's recommendations.** At the time of our audit, many of the recommendations still had not been acted upon by the agency.

**RESPONSE**

The Deputy Minister's response on September 14, 1990 indicated that the Ministry was working closely with the agencies who were audited to ensure that specific findings were addressed. The following comments were also included in the response.

AGENCY SPENDING

### *Need for Facility Expansions Questioned*

*"MCSS (Ministry of Community and Social Services) disagrees that the facility expansions were not required. Prior to the development of the Resource Centre, the agency operated two congregate residential facilities. One of these facilities provided accommodation for approximately 100 children and young adults who were in need of significant medical care or intensive supervision. The facility in which they lived was a leased, single floor, wooden structure built in the late 1940's as a temporary facility to house workers involved in the war effort.*

*"In 1981, the agency began to develop a long-term plan to downsize its outdated facilities and to establish a system of community-based homes for its residents. The facility mentioned above was the first site targeted for downsizing. Today, all the residents from that facility live in group or family homes in the community.*

*"The Resource Centre is an integral component of the service system that has enabled the agency to progress with its plans to downsize its large facilities. It should be noted that plans have also been received by MCSS to downsize the second facility. That plan is presently being reviewed by MCSS staff.*

*"The Resource Centre referred to in the audit report serves many functions. It provides a range of support services such as seating clinics, respite care and behaviour management to developmentally handicapped children and adults. It provides specialized laboratory and pharmaceutical services to the community. It also serves as a clinical teaching centre.*

*"When plans were being made for the care of residents, MCSS and the agency agreed jointly that it was appropriate to plan a separate facility for non-residential, clinical, developmental services for the agency. In addition, consideration was given to space requirements for other services offered by the agency to people with developmental handicaps living in the broader community.*

*"The existing structures referred to in the audit report which were available to the agencies are located on the grounds of a large institution. Renovating these structures was not a workable or practical option as it is MCSS policy to encourage locating services in the community. Therefore, a feasibility study of the structure as outlined in the MCSS's Feasibility Study Guidelines was not completed. This decision was supported by MCSS.*

*"The concept of dispersing administrative and support services throughout the community was considered. However, in order to preserve the interdependent relationships among services, it was decided the best option was to situate the services in one location. The close proximity of services provides opportunities for professionals to meet to discuss specific cases and for training and staff development. It was also demonstrated at that time that a dispersed system was less cost-effective than a single service centre.*

*"The audit report also indicates that no feasibility study was done to justify the need for the x-ray facility, a kitchen, a hydrotherapy pool and classrooms. Extensive discussions occurred within the medical community to determine if laboratory and x-ray services could be integrated with existing mainstream facilities. It was concluded that these centres were operating at maximum capacity and were unable to accommodate the agency's service requirements. Similarly, the only other hydrotherapy pool was located in a chronic care hospital. Demand for this pool far exceeded the hours available. Given that the population being served by the pool was increasingly elderly and physically disabled and that the changing demographics projected an even greater need, a decision was made to proceed with the building of a new hydrotherapy pool. MCSS will ensure adequate documentation of such discussions in the future.*

*"With regard to the Auditor's statements that the Resource Centre which is operated by one agency, and the Sensory Stimulation Centre which is operated by the other agency are currently underutilized, MCSS would like to point out that they were built for present and future need. Both agencies identified in the audit are working with service providers in their respective communities to ensure appropriate use of their service centres. For example, at one agency, board and meeting rooms are booked completely by local agencies and groups. The two specialized classrooms are being used to their maximum capacity and the respite wing is used regularly by clients who need a rest during the day from classes or programs in the facility. Further community use will continue to be monitored closely by the board of directors and reported to MCSS."*

### *Weak Controls over the Acquisition of Goods and Services*

*"MCSS agrees that competitive tendering is a preferred and prudent practice. This position is reflected in 'Guidelines to Purchasing' which MCSS most recently updated in 1988. Given the responsibility of the boards of directors for agency operations, the guidelines have been made available to the agencies to be used on a voluntary basis.*

*"In the example of the food services contract cited in the audit report, MCSS is confident, through the budget review process, that the food services costs are comparable to other large agencies in that community. Thus, while a formal tendering process is the preferred practice, it is unlikely that significant cost-savings would have resulted.*

*"MCSS has taken action to ensure that this agency is aware of the purchasing guidelines.*

*"Regarding conflict of interest, the Auditor states that transactions involving apparent conflict of interest were not addressed appropriately by the agencies. The report does not allege any impropriety. However, the report indicates that the documentation could have been more complete.*

*"Where any agency has a conflict of interest situation, it is to be handled by the corporation through its by-laws. As well, when the issue pertains to a consultant, the consultant is directly accountable to his/her professional association. These associations have a process whereby a conflict of interest can be addressed. MCSS will remind agencies of the need to ensure that a complete audit trail exists with respect to the decision-making process."*

### *Interest Income and Surpluses Not Recovered*

*"MCSS introduced the Annual Program Expenditure Report (APER) in 1985 as an annual report for use in selected programs to supplement the information provided in the financial statements. This mechanism was developed in consultation with the Ontario Institute of Chartered Accountants and relies on the expertise of external auditors to certify that reconciliations are made in accordance with MCSS policy. Each agency is provided with technical instructions for completing the APER. These instructions outline the specific requirements of the APER.*

*"The process is reviewed to address issues raised by agencies and field offices concerning the completion and submission of the APER documentation. As a result of this ongoing scrutiny, a number of improvements have been made to the format and the content of the documentation. Specifically, the 1988/89 APER document included an additional schedule entitled Subsidy Reconciliation. This schedule requires the agency to calculate the subsidy due in accordance with the prescribed funding, compare it to the payments received and indicate the variance. The instructions state that disposition of the amount shown as a variance will be decided by the Area Office in accordance with MCSS policy. It is the expectation of MCSS that the external auditors have verified the subsidy and payments information.*

*"The audit report states that two of the agencies did not identify all operating surpluses and interest income generated from MCSS subsidies.*

*"One agency (B) did not distinguish between operating surplus and interest earnings. The amount represented accumulated donations and earnings from the agency's non-capital funds and the interest earned on surpluses. MCSS has requested that this agency separate MCSS subsidies in its operating fund and invest temporary cash surpluses for the benefit of that fund.*

*"The audit report indicates that according to legislation agencies are required to fund at least one-third of capital expenditures with money raised from private sources. The audit report states that the agencies' share of these capital projects was paid out of operating surpluses and interest income.*

*"Given that one agency (A) had approximately $700,000 from the sale of its property in 1972, and a successful fundraising campaign in 1988 which yielded proceeds in the order of $2,000,000, a significant amount of the interest income was from the agency's own sources. Therefore, the capital contribution was for the most part from appropriate sources.*

*"As a result of the APER process, MCSS is reasonably confident that appropriate recoveries have now been made and that follow-up action has been taken to ensure accurate reporting in the future."*

## Community and Social Services

## Agencies for the Developmentally Handicapped

### *Spending of Operating Funds Questionable*

*"The audit report identified that in some instances capital purchases were made from operating funds without prior MCSS approval.*

*"MCSS guidelines state that any capital item costing over $15,000 requires prior MCSS approval. Further elaboration of these guidelines has been prepared in a draft financial directive relating to discretionary capital. This directive recognizes that agencies may have unanticipated in-year capital expenses for equipment, repairs or replacements. These purchases may be approved through either operating subsidy or discretionary capital.*

*"MCSS is in the process of approving this policy directive.*

*"MCSS will take into account the concerns identified in the audit in the final directive and in communicating this directive with its Area Offices."*

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### *Operating Costs Varied Significantly between Agencies*

*"The audit report indicates a variance in per diem rates. MCSS is aware that variations in per diems exist between facilities. However, it is important to note that per diems are not the basis for funding Schedule II* (agency operated) *facilities. MCSS funds Schedule II facilities on a global budget basis taking into account the clients being served, the program being delivered and the community in which it is situated.*

*"MCSS agrees that as a comparative tool per diem rates are useful for business analysis. However, even in these circumstances many factors must be considered.*

*"These often interdependent factors may include:*

- *age and level of impairment of residents;*
- *degree of programming and approach to service delivery;*
- *varying salary ranges and diversity of professionals;*
- *range of non-residential programs; and*
- *age and condition of the operation's physical plant.*

*"MCSS is in the process of identifying cost variation indicators and these indicators will be used by MCSS staff to monitor, review and account for the cost associated with residential facilities."*

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ADEQUACY OF CARE AND SERVICES

### *Serious Occurrences Not Reported*

*"The finding that agencies did not report serious occurrences is of great concern to MCSS. Agencies are required to report any incidents of a serious nature to the Area Office through an appropriate designate such as a Program Supervisor or Area Manager.*

## Comments on Ministry and Crown Agency Audits

*"There are two sets of guidelines which outline the necessary steps to follow with a serious occurrence. They are the Developmentally Handicapped Residential Services Manual (widely used as a guide in facilities with more adults than children) and Guidelines and Procedures for the Reporting and Follow-up of Serious Occurrences [used in children's programs funded or licensed under the Child and Family Services Act (CFSA)].*

*"The audit has highlighted the need to re-examine these two documents to ensure clear and consistent definitions of what constitutes a serious occurrence. MCSS will also provide direction in cases where it is uncertain that an incident is a serious occurrence.*

*"Immediate action has been taken by Area Offices to ensure the current guidelines are being adhered to by all Schedule II facilities. MCSS will direct its Area Offices to review, with agencies and their boards, the obligation and responsibility to report serious occurrences. Further, MCSS will provide direction for establishing administrative procedures for documenting, tracking, analyzing, and following up serious occurrence reports.*

*"As reported in the audit, an independent review has been undertaken by the board of directors in one agency. Pending the final report, the board of directors has taken steps to supplement staff training in feeding and nutrition. Other precautionary measures instituted by the board include providing additional staff during feeding and enhancing nursing staff on each shift to ensure adequate health and medical care. The recommendations of the independent review will also be analyzed by MCSS to determine if they can be applied to all Schedule II agencies across the Province."*

### Inspections Inadequate

*"The auditors state that 'although the majority of residents are adults, there is no specific legislative or Ministry inspection requirement to ensure adequate care.'*

*"The care of residents living in Schedule II facilities is governed by the Developmental Services Act. This legislation does not require licensing of adult residences. However, the care of residents who are under the age of 18 years is also governed by the CFSA. The CFSA requires that children's residences are licensed annually. Schedule II facilities covered by this legislation all have current licences.*

*"Furthermore, the Public Inspections Panel, under the Ministry of the Attorney General, periodically and formally inspects Schedule II facilities and provides a report of the inspection to MCSS. MCSS responds to and follows up on the report.*

*"Quality of care is an important issue for MCSS. For this reason, within this year, MCSS will initiate a peer review process in Schedule II facilities in cooperation with agency boards of directors and professionals."*

## Community and Social Services
## Homes for the Aged

**3.4**
**Inadequate Procedures for Monitoring Homes for the Aged, Ministry of Community and Social Services**

The Ministry's Adults' Social Services Activity provides most of the funding for, and regulates, the operations of homes for the aged run by municipalities and charitable institutions. For the 1990 fiscal year, payments to homes for operating expenses totalled $358.7 million (municipal $289.8 million and charitable $68.9 million).

The homes for the aged program is delivered through 13 area offices that serve as the primary contact point for homes. In addition, the Elderly Services Branch in Toronto is responsible for policy and program development for seniors.

### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit was conducted at the Elderly Services Branch and four area offices located in Hamilton, Toronto, North Bay and Peterborough. We interviewed key personnel, including the Director of the Branch and Branch and area office Managers. In addition, we accompanied Ministry personnel on their visits to seven homes to gain an understanding of their roles and the operations of the homes.

We assessed the Ministry's procedures for monitoring the quality of care in homes for the aged.

#### CONCLUSIONS AND FINDINGS

*MONITORING QUALITY OF CARE*

**We concluded that Ministry procedures for monitoring the quality of care were inadequate.**

- **The frequency and scope of inspection activities were not specified.**
- **Little or no documentation was available to indicate:**
  - **the frequency and nature of visits to homes;**
  - **follow-up activity when annual reports were not submitted by the homes' Medical Directors; and**
  - **the monitoring performed to ensure that annual fire safety and monthly sanitary inspections had been done.**
- **Nursing reviews were infrequent and did not ensure that care provided to residents was appropriate to their needs.**

### BACKGROUND

As at March 31, 1990, there were 182 homes (93 municipal and 89 charitable) with a capacity of approximately 28,700 beds, 12,900 residential care and 15,800 extended care. Residential care beds are provided for those residents who require less than 1 1/2 hours of nursing care per day, whereas extended care beds are for those residents who require 1 1/2 hours or more of nursing, medical and personal care a day.

Residents are provided with accommodation, meals, personal and medical care, and a range of social and recreational activities. Residents vary in the amount and types of care they require as well as in their lengths of stay. Persons in need may suffer from a large array of physical and mental disabilities. According to information from the Ministry, about 45 per cent of residents in homes are over 85 years of age and the majority of the remainder are between 65 and 85.

COMMENTARY

*MONITORING QUALITY OF CARE*

**Overview**

Although the homes' boards of directors or committees of management have the responsibility and accountability for day-to-day management, including outcomes of resident care and program quality and effectiveness, the Ministry has the responsibility to inspect the homes to ensure that they comply with various requirements of their respective statutes.

The Charitable Institutions Act states that a Provincial Supervisor shall inspect each charitable institution for the purpose of determining compliance with the Act and the Regulation. The Homes for the Aged and Rest Homes Act states that homes shall be open at all reasonable times for inspection by a Provincial Supervisor or other appointed person(s). Some of the key provisions of both Acts and Regulations pertain to maintaining adequate standards in fire safety, hygiene, diet, medical services and the physical condition of the building. The Acts make no reference to imposing sanctions against the homes if they do not comply with the legislation.

In order to discharge its responsibilities, each area office has Program Supervisors who are designated as the Provincial Supervisors by the Ministry. They serve as the prime contact between the Ministry and the homes. It is their responsibility to ensure that homes provide an adequate level of care to residents and that statutory requirements are met. Furthermore, they are required to provide advice to the homes, to be aware of any problems in the homes and to keep senior management of the Ministry informed. Many Program Supervisors are also involved in the delivery of several other programs of the Ministry.

In addition, the Program Supervisors can request health care consultants, at the corporate office in Toronto, to review the operations of homes. There are three nursing consultants, one dietician and one part-time medical consultant on staff. Area offices can hire similar professionals locally to perform specialized reviews. Any follow-up of recommendations made by these consultants is the responsibility of the Program Supervisors. Therefore, effective administration of the homes for the aged program to a large extent depends on the work of the Program Supervisors.

**Inspection Procedures Still Inadequate**

**In our 1986 audit, we concluded that inspection procedures were not adequate to ensure that homes were complying with standards for the care and safety of residents. We reported that the frequency and the scope of inspection activities were not specified; actual inspections were infrequent; and the results of inspections and the follow-up of**

**deficiencies noted were poorly documented. In our current audit, we noted similar deficiencies.**

Our discussions with Program Supervisors at the four area offices, and a review of the files for 21 of the 75 homes for which they were responsible, indicated:

- **Program Supervisors had not prepared annual plans establishing the frequency and intended purpose of visits to homes.**

- Program Supervisors carried out their responsibilities through informal visits with the homes' senior management or Board members. However, as little or no documentation existed on the files, we could not determine how often they visited homes or what they did during these visits.

- Generally, homes were given long advance notice of visits by Program Supervisors. This might have resulted in conditions in the home at the time of the visits not being representative of conditions during the year.

- Program Supervisors considered themselves to be liaison persons between the home and the Ministry. They did not feel qualified to perform specialized nursing and dietary reviews. In addition, they did not have the time because of their many other responsibilities.

- **Medical reports were not on file for 14 of the homes and there was no documentation to indicate that Program Supervisors had followed up on the outstanding reports.**

  Regulations require the home's Medical Director to submit an annual report to the Ministry and to the Board of Directors or Committee of Management of the home. In this report, the Director summarizes: the general health conditions of the residents; the nursing, activational and other therapeutic services provided to the residents; and any recommendations that are considered necessary to ensure proper health and adequate state of well being for all residents.

- **There was little evidence that Program Supervisors monitored the results or frequency of inspections carried out by other authorities. For example 20 files indicated no documentation of either fire safety or sanitary inspections.**

  Regulations require the home's Board of Directors or Committee of Management to ensure that fire safety inspections of homes are carried out annually by the Fire Marshal's Office or the local fire department. Also, Regulations and Ministry policy require that sanitary conditions of the homes be inspected monthly with the assistance of local Public Health Units.

We did note, however, that when the Ministry was made aware of problems regarding the safety and well-being of residents at a home, the Program Supervisor would direct his/her concerns to home management and adequately monitor the actions taken.

### Nursing Reviews Still Infrequent

**In our 1986 audit we reported that, due to the small number of Ministry health care consultants, the number of specialized reviews had been very limited. In our current audit, we noted that nursing reviews were still infrequent.**

In the four area offices we visited, our review of the use of nursing consultants indicated that:

- For two area offices, the last nursing reviews were done in January 1989 and March 1988.
- Another area office had not done any nursing reviews since 1987. At the time of our audit, the area office had hired a nursing consultant to conduct a review in one of its homes.
- The fourth area office had hired two nursing consultants in 1987 to do a one-time review of each of the 24 charitable homes in its area. As of May 1990, 20 of these reviews had been completed.

In addition, only one nursing review had been done in the last three years at 12 of the 21 homes we reviewed. These reviews examined the homes' capacity to provide good quality of care by assessing staffing levels, systems, policies and procedures and quality assurance programs. **By comparison, at the Ministry of Health, Compliance Advisors (nurses) visit private nursing homes annually and carry out comprehensive reviews, which include the tests carried out during nursing reviews as well as tests to determine whether care provided to residents was appropriate to their needs.**

Previously, nursing consultants from the Ministry's head office would review homes independently, in addition to those they were asked to review by the Program Supervisors. However, consultants now visit homes only if requested by the Program Supervisor and if the Boards or Committees of the homes support the review. Additionally, the head office medical consultant had taken on additional responsibilities and had not been able to visit any homes recently.

We again recommended that, in monitoring homes for the aged through inspections by Program Supervisors and reviews by nursing consultants:

- the Ministry develop a systematic inspection process for both Program Supervisors and nursing consultants to inspect and report on all homes over a reasonable period of time. This process should include procedures to ensure that care provided to residents is appropriate to their needs.
- all other monitoring activities carried out by the Program Supervisors be documented to provide a history of their involvement, problems encountered and suggested solutions provided. This record would be beneficial in determining the nature and frequency of inspections deemed necessary for individual homes.
- it would be helpful if Program Supervisors reported the approximate amount of time spent on the major activities of each program. This would

assist management in making operational and resource allocation decisions concerning the level of staffing and frequency of inspections.

**RESPONSE**

The Deputy Minister responded on September 14, 1990.

***Inspection Procedures Still Inadequate***

*"Your report states that the frequency and scope of inspection activities are not clearly specified, and that the Audit Team found little documentation with respect to the purpose and frequency of visits by Program Supervisors. Specifically, documentation was lacking with respect to Medical Directors' Reports and inspections by local officials responsible for fire safety and sanitation.*

*"I am pleased that your report recognizes that responsibility for the day to day management of Homes, including outcomes of resident care and program quality, rests with Boards of Directors and Committees of Management. We acknowledge that this relationship reflects a different approach to that employed by the Ministry of Health with the predominantly private sector Nursing Home Industry.*

*"I am also pleased with your acknowledgment that 'when the Ministry was made aware of problems regarding the safety and well-being of residents at a Home, the Program Supervisor would direct his/her concerns to Home management and adequately monitor the actions taken.'*

*"As you are no doubt aware, responsibility for the Nursing Homes and Homes for the Aged Programs has been transferred to the Residential Services Branch of our newly formed Community Health and Support Services Division. Our paper 'Strategies for Change' clearly reflects our policy decision to not only introduce a new and consistent funding arrangement, but to develop consistent program standards and expectations and a new approach to protecting the public interest in these facilities.*

*"On the latter point, a new accountability relationship is being defined, building on the best elements of our current approaches. Compliance Advisors in each of the Division's 14 local offices will monitor the compliance of Homes for the Aged and Nursing Homes with our new standards on a regularly scheduled basis, and will assist Program Supervisors in managing the relationship between government and these long-term care facilities. An enforcement team, similar to the one that currently deals with those Nursing Homes requiring a more intrusive 'hands on' approach, will be retained centrally to deal with Nursing Homes and Homes for the Aged with which a local compliance management approach is unsuccessful. Our accountability options will be exercised in response to a facility's documented performance, as opposed to its category of ownership.*

*"In the interim I have instructed my staff in the Operations Division to review their expectations of Program Supervisors with regard to the frequency of their visits to Homes. We will also review our practices in documenting Homes for the Aged compliance with our Ministry's expectations, as well as the fire and health standards enforced by other officials."*

***Nursing Reviews Still Infrequent***

*"The MCSS [Ministry of Community and Social Services] professional consultants, located corporately, work in support of, and in response to a request from Program Supervisors in the field. While these resources are under considerable pressure from the field, the formation of the Residential Services Branch has allowed us to marry the consultative resources of the two former Branches with respect to professionals with backgrounds in Medicine, Nursing, Food Services, and Care Environments. These staff are now available to support operations staff in field offices of the Division in a collaborative fashion. We see this consultative team as a key component of an Operations Support function that will be retained in the Division's Corporate offices in the longer term."*

## 3.5 Management Information Systems, Ministry of Correctional Services

The Ministry's Management Information Systems Branch has developed and is currently implementing a five year Information Systems Strategic Plan, with capital costs of $28 million and annual operating costs of $5.7 million. During the 1990 fiscal year, $5.3 million was spent on Branch operations and $8.6 million on implementation of the plan.

### SUMMARY

#### SCOPE AND OBJECTIVES

We examined the major functions of the Management Information Systems Branch.

Our objectives were to assess whether:

- computer resources were acquired economically and used efficiently; and
- computer hardware, software and data were protected from loss, misuse or destruction.

#### CONCLUSIONS AND FINDINGS

*RESOURCE ACQUISITION AND USE*

**For the most part, computer resources were acquired economically and used efficiently. However, we concluded that:**

- **the decision to specify a single manufacturer for microcomputers resulted in additional costs of $800,000; and**
- **some consultants' contracts were being split, thus avoiding the requirement for a Request For Proposal.**

*INFORMATION SYSTEMS SECURITY*

**Computer equipment was protected from loss, misuse or destruction but there were significant weaknesses in the protection of computer software and data. We found:**

## Correctional Services

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- **inadequate protection of data stored on the mainframe computer against unauthorized modification or disclosure;**
- **no policies to control the length and content of user passwords, allowing for passwords which could be easily guessed by unauthorized persons; and**
- **one microcomputer application not sufficiently protected to prevent unauthorized access to sensitive personal data.**

**BACKGROUND**

Over the past four years, the Management Information Systems Branch has been primarily concerned with developing an Offender Management System, to be implemented on a mainframe computer and made available to 1,000 terminals in offices across the Province. The Branch estimated that the system, which is the keystone application of the Strategic Plan, will process 113 million transactions a year, tracking offenders while they are the responsibility of the Ministry.

To date, $15 million has been spent on hardware and software acquisition and system development. Future tasks include linking financial and human resources applications with the Offender Management System to complete the corporate database.

**COMMENTARY**

*RESOURCE ACQUISITION AND USE*

### Microcomputer Standard Resulted in Increased Costs

In 1986, microcomputers manufactured by a major computer company were specified as the Ministry standard. To the time of our audit, the Ministry had purchased 735 of this company's microcomputers. These were, and continue to be, more expensive than compatible microcomputers of other companies.

Competitive bids from different vendors were obtained, but the vendors were required to quote prices on microcomputers with a specific hardware architecture, manufactured or licensed by the specified company.

We compared the cost of microcomputers purchased to compatible equipment produced by another major manufacturer. **We determined that the Ministry could have saved approximately $800,000 over the past five years by purchasing from another manufacturer.**

No technical study or business case could be found to justify this reliance on a single source.

### Consultants' Contracts Split

Consultant contracts greater than $25,000 require a Request For Proposal. **Our examination of 32 consultants' contracts indicated that some were being split, thus avoiding the requirement.**

For example, in the following cases, the total amount was more than $25,000 and the second contract had the same terms of reference as the original contract:

| Contract # | Start Date | End Date | Contract Amount |
|---|---|---|---|
| Case #1 | | | |
| 1 | January 10, 1989 | February 28, 1990 | $24,000 |
| 2 | March 1, 1990 | April 30, 1990 | 24,000 |
| | | Total | $48,000 |
| Case #2 | | | |
| 1 | January 2, 1990 | March 31, 1990 | $24,950 |
| 2 | April 1, 1990 | May 31, 1990 | 24,950 |
| | | Total | $49,900 |

*INFORMATION SYSTEMS SECURITY*

**Computer System Security Required Improvement**

In our examination of the Ministry's Resource Access Control Facility (RACF) mainframe security, we determined that **196 users were given authorities that exceeded their need for access to the system.**

Using one of these authorities, we were able to easily create a program which could have by-passed all security protection and monitoring. **We could have read, altered or deleted any data stored by the computer.** Such access could, for example, result in changes to personal data such as segregation details or the physical condition of offenders, or unauthorized public disclosure of a young offender's identity and status.

**Password Controls Were Inadequate**

A primary control used to restrict access to a computer is password protection. Authorized users must identify themselves with a name assigned to them and a corresponding password. Users are responsible for choosing and periodically changing their own passwords.

Because user names are generally known within the Ministry, passwords must be kept in strict confidence. The Ministry places great reliance on password control to prevent unauthorized access through public telephone lines.

To prevent users from selecting passwords that are easy to guess, like a single letter or number, RACF allows security administrators to define the minimum length of the word and the type and position of numbers and characters to be used.

However, this option was not utilized. **We determined that it was possible for users to choose a one-letter password for access to the Ministry's interactive programming facility and the Offender Management System application.**

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### Inadequate Protection for Sensitive Microcomputer Data

From a list of 26 microcomputer applications, we selected three for examination. We tested access to these applications, which were stored on two microcomputers operated by Human Resources and one operated by Financial Services.

Two of the three were protected from casual access by keyboard locks and passwords. **The third microcomputer, operated by Human Resources, was found in an open office area and was not secured by a keyboard lock.** Back-up diskettes, which contained information about employees' grievances, were left in an unlocked plastic container. The Grievance System was protected by a password, but **it took us less than five minutes to defeat the password protection and print the password and information from the data files.**

Improper protection of the system and the data poses a threat to the privacy of the individuals with names and grievance information stored on the microcomputer.

**RESPONSE**

The Deputy Minister responded on September 4, 1990.

RESOURCE ACQUISITION AND USE

### *Microcomputer Standard Resulted in Increased Costs*

*"In 1988/89, a technical specification and a Request For Proposal (RFP) for the acquisition of 1000 mainframe terminals, 200 microcomputers, over 150 communications controllers and related software and options was prepared and approved by the appropriate external authorities at Management Board, prior to being issued. The comments refer to the microcomputer portion of this tender. The specification for all of the equipment, including the microcomputer components, is completely valid in describing the technical compatibilities required and it does not restrict suppliers to only one manufacturer. The ministry recommended that the contract be awarded to the lowest cost bidders for the various components and this was approved by Management Board.*

*"In follow up contact with the same suppliers used by the auditors, the ministry has determined that the machine quoted did not have the memory requested and, according to the engineering department of the manufacturer, would not run the software required. In addition, the price used by the audit team did not include the five year on-site warranty requested. The supplier suggested that to meet the specification an alternative model was appropriate and supplied the costs for that model, including the five year warranty. The net result is that the equipment recommended by the ministry and approved by Management Board cost less than the equipment proposed by the audit team.*

*"This same information was pointed out to the audit team at the exit interview and they agreed that since they could not accurately substantiate their calculations, they would remove it. The errors are still present."*

This information was not provided at the exit meeting. To assist the Deputy Minister's understanding of our position, we communicated further on the issue:

Our comments did not refer only to the RFP for the 200 microcomputers as suggested by the Ministry, although we included these microcomputers in our calculations of the total amount. Since 1986, the Ministry has purchased 735 microcomputers manufactured by one company without establishing the company as a vendor of record as required by Management Board Directives. This company's computers are generally accepted as higher priced commodities.

Our calculations of the costs for the 735 microcomputers were substantiated and conservative and did not reflect any discounts or other concessions which could not be validated. The Ministry's response referred to the value of a single supplier's offer of a five-year on-site warranty, but this cannot validly be included in the cost calculations when other vendors were not given an opportunity to offer similar concessions.

### *Consultants' Contracts Split*

*"In case #1, the project was originally estimated to be less than $25,000 and therefore did not require a written request for proposal. Subsequently, the ministry realized that this amount was underestimated. This original contract was arranged via a verbal quotation method following Management Board of Cabinet Directives. It was subsequently determined that additional work was needed and a verbal quotation method was used for the second contract as well involving a number of quotes. Verbal competitive bids were received and evaluated for both contracts. Administrative processes will be modified to ensure that the appropriate tendering process will be followed in these circumstances.*

*"In case #2, it was demonstrated by means of documentary evidence at the exit interview, that the terms of reference for the two contracts are completely different. The first contract was to provide a mechanism to measure the consumption of computer resources for capacity planning. Quotations were received from a number of parties. The second contract was to build a method of testing a newly developed system to determine if it was performing correctly. Again, a number of quotes were involved. There is no requirement for a request for proposal for either of the projects. Contrary to the finding in case #2, this was therefore not a case of contract splitting."*

INFORMATION SYSTEMS SECURITY

### *Computer System Security Required Improvement*

*"The circumstances identified by the audit team were identified by MIS staff internally and action initiated to address them prior to the audit. The action to address the situation has now been completed as planned."*

### *Password Controls Were Inadequate*

*"By not specifying the minimum length of a password, it allows for a larger number of combinations. We consider this method, currently in use, as more secure than the one recommended by the audit team. However, a review of this parameter, as used by other facilities, will be undertaken."*

## Education

## Grants to School Boards

### *Inadequate Protection for Sensitive Microcomputer Data*

*"The microcomputer systems reviewed by the audit team were not randomly selected but chosen, based upon the usage, as those which would be the most likely to contain sensitive data. The grievance system mentioned is protected by a password that requires specialized technical knowledge to defeat. Because the information contained in the system is public information, available from other sources in addition to the microcomputer system, this password protection is considered adequate.*

*"Even though the protection of this particular microcomputer is considered adequate, the ministry has anticipated the need for security on computers, especially microcomputers. A ministry policy on information security and an awareness package has been prepared for distribution across the ministry. Implementation is planned to begin after the receipt of the enabling policy under section seven (7) of the Management Board Directives."*

**3.6**
**Financial Accountability Framework for Grants to School Boards, Ministry of Education**

Transfer payments to school boards from the Ministry of Education totalled almost $4.5 billion in the 1990 fiscal year. Accountability for ensuring education funds are spent as the Ministry intends is shared between the Ministry and the 123 locally elected boards of trustees.

**SUMMARY**

**SCOPE AND OBJECTIVES**

Our objective was to assess the adequacy of the Ministry's planned financial accountability framework. Specifically, we assessed:

- accountability of school boards to the Ministry for the grant money provided.
- accountability of administrators to the boards of trustees.

Our conclusions are based on audit work carried out at Head Office and two regional offices and, at the school board level, on a survey of directors of education and boards of trustees, as well as inspection audits of two school boards.

**CONCLUSIONS AND FINDINGS**

**FINANCIAL ACCOUNTABILITY TO THE MINISTRY**

**The Ministry has developed sound plans for improving the financial accountability of school boards. However, these plans will not be effective without better co-ordination and monitoring of the work of regional offices.**

*ENROLMENT-BASED GRANTS*

**School board external auditors were not given adequate direction on the nature and extent of enrolment audits required.**

## Comments on Ministry and Crown Agency Audits

**Enrolment audits performed by regional staff were not consistent, complete or representative of schools in the region, and did not consider risk.**

*TRANSPORTATION GRANTS*

**Although procedures were adequate to ensure that funds were spent on transportation, they were not adequate to ensure that expenditures were controlled.**

- **Serious deficiencies included the absence of a limit on the Ministry's share of transportation costs, which provided little incentive to deliver the most cost-effective services.**
- **Reviews and audits of board transportation submissions and expenditures were not consistent or effective.**
- **Few boards tendered for transportation services.**

FINANCIAL ACCOUNTABILITY TO TRUSTEES

**Our survey indicated that most boards had adequate arrangements in place to hold board administrators accountable for financial management, although some concern was expressed:**

- **Several respondents indicated that they did not have a clear understanding of the roles, responsibilities and powers of administrators, boards of trustees, and the Ministry.**

OTHER MATTERS

**Although most boards shared some resources with other boards, few sought opportunities or commitments to share further.**

**The Ministry did not monitor school utilization or compliance with school closure policies.**

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COMMENTARY

FINANCIAL ACCOUNTABILITY TO THE MINISTRY

### Overview

Responsibility for financing education in Ontario is shared between the Province and local school boards. Typically, municipalities fund local boards through property tax assessments. The Provincial share of total funding averages about 40 per cent. The greater the local tax base, the lower the proportion of Provincial funding.

The Ministry's six regional offices provide advice and help hold school boards accountable. At the time of our audit these offices had about 350 staff, half of whom were directly involved in school board finance matters.

### Sound Plans for Improving Accountability to the Ministry

In May 1988, Management Board issued a Directive on Transfer Payment Accountability which set out minimum mandatory requirements. As a result, the Ministry completed a Transfer Payment Accountability report in March 1989.

The Ministry divided its transfer payments into groups, three of which relate directly to school boards, and developed standards of accountability for each group, taking into account the criteria identified in the Management Board Directive and Guideline. The main criteria related to setting objectives and desired results, contracting, reporting results and taking corrective action.

**The Ministry's plan for strengthening the accountability relationship with school boards is sound. However, better direction and co-ordination of regional activities such as enrolment and transportation audits are necessary.** Our discussions with regional personnel indicated that they wanted and needed more central direction.

The Ministry has made efforts to increase regional accountability and effectiveness, including having internal audit visit the regions and holding Province-wide meetings on enrolment and transportation issues. However, many of the deficiencies reported in the balance of this section stem from a failure to establish effective communication and co-ordination between Head Office and the regional offices.

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*ENROLMENT-BASED GRANTS*

### Overview

A significant amount of school board funding is based on enrolment. Consequently, it is critical that reported enrolment be verified by audits conducted at the school level.

The business and finance sections of each regional office are responsible for conducting enrolment audits. Boards are audited on a two- to- four-year cycle, depending on the region. Boards which have made inaccurate enrolment submissions may be audited more frequently. If system-wide changes or new initiatives are created, the region tries to visit every board to review the effect on enrolment for that year.

School boards are required to have their financial statements audited annually by external auditors.

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### Role of Board External Auditors Unclear

We were informed that some auditors performed enrolment testing as part of the financial audit, although the written assurance provided by the auditor did not clearly indicate that they had tested and were satisfied with reported enrolment. As well, **regional staff were unclear as to what procedures external auditors performed to ensure that material errors did not exist in enrolment numbers.**

**This was mainly because the Ministry had not specified its requirements to school board external auditors.** If external auditors were required to gain assurances that enrolment figures were accurate, regions could substantially reduce their enrolment auditing. Alternatively, if the Ministry believes it is more cost-effective for its regional staff to perform enrolment audits, external auditors could be instructed not to test enrolment records.

### Consistent Audit Policy Required

The regions we visited performed enrolment audits for the 1988 fiscal year in 40 school boards. These audits included visits to 227 schools. **In reviewing the audit files for 15 boards and 86 schools we noted many inconsistencies and deficiencies,** including:

- failure to use or to complete the standard audit package developed by the Ministry.
- lack of working papers to document the procedures undertaken.
- unrepresentative selection of schools for audit. During 1988, of the 21 schools audited in one region visited, only one was a secondary school. In the other region visited a more representative 70 of 206 schools audited were secondary schools. Secondary schools have a greater risk of enrolment errors because part-time students can be misclassified as full-time.
- inconsistency from officer to officer in the number of students selected for verification within a school.

The dollar value of enrolment errors can be significant. For example, in 1987, errors totalling $1.9 million were reported by the regions. The majority of these errors involved part-time students who had been classified as full-time, resulting in a higher level of funding from the Ministry. One large board had recorded part-time students as full-time students for three consecutive years.

*TRANSPORTATION GRANTS*

### Overview

School boards set policies to provide transportation to enable students to attend regular and special programs or under-utilized schools. Home-to-school transportation is the largest component of the expenditure.

Each board sends an annual transportation funding submission to its regional office detailing the number of pupils to be transported, length of routes, bus seating capacities and estimated expenditures.

The Ministry funds the amounts approved by the regional offices. For the 1989 fiscal year, the Ministry funded $370 million in transportation costs. This represented approximately 70 per cent of all boards' transportation costs.

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Transportation costs grew by over 12 per cent in 1989. For the six years from 1983 to 1989, this expenditure increased almost 90 per cent from $284 million to $538 million.

### Deficiencies in Existing Funding Policy

The 1985 MacDonald Commission Report on the Financing of Elementary and Secondary School Education in Ontario (the MacDonald Report) recommended that the funding formula for transportation be changed "to ensure greater economy and efficiency". The Ministry also recently examined the existing transportation funding policy and identified several problems, including:

- **School boards establish their own transportation policies.** Without Provincial standards, there are different policies on walking distances, conditions under which transportation is provided and the type of transportation used.

- **The low proportion of board funding, together with an open-ended system, provides little incentive for boards to deliver transportation in the most economical manner.** The majority of cost savings from improved administration of transportation would accrue to the Ministry.

### In-office Reviews Require Improvement

Each regional office completes an in-office review of transportation submissions by its boards. This review determines the transportation expenditure eligible for grant. **We noted that the objective of the review was clerical rather than analytical and did not include any verification procedures.** For example, at one regional office:

- No analyses of transportation costs were performed, to explain cost per pupil variances among boards. Such analyses could also identify situations requiring further investigation or audit.

- No summary of errors discovered was maintained, so Head Office could not keep regions informed of risk areas for future review or audit attention.

### In-board Audits Should Be More Consistent and Effective

In addition to performing in-office reviews, the regions are expected to undertake in-board audits to verify transportation information. **In the two regions we visited, the number of transportation audits, the level of documentation and the sample sizes differed significantly.** For example:

- One region completed two audits in 1988/89, its first in five years.

- The other region completed ten audits for the 1988/89 school year, of which two were not yet finalized. Adjustments totalling $214,000 were recorded.

- One officer examined only five routes out of approximately 500 to verify the reasonableness of kilometres claimed by one board.

We recommended that the Ministry apply consistent standards that detail the percentage of boards to be audited, the sample sizes to be used, and the documentation to be provided. Selection of boards should be based on per pupil cost comparisons among boards and a risk analysis that considers factors such as high growth, recent contract changes and unresolved issues from previous audits.

**Verifying the accuracy of transportation information reported to the Ministry is important. However, audits could also identify significant cost savings for the Ministry and boards.** For example, a school board superintendent recently completed a study of transportation costs charged to three boards by bus contractors. During the summer of 1989, all routes were reviewed to ensure kilometre charges were correct. The study concluded that the boards were overcharged by over $150,000, of which about $130,000 was returned to the Ministry.

In one of our board inspection audits, we identified over $1 million that could be saved annually through a combination of tendering, more fully utilizing existing buses, and more efficient routing. The board itself had also identified opportunities for significant cost savings.

Given the size of the Ministry's share of transportation costs, we believe audits should focus more on cost-effectiveness. Regions should examine the cost-effectiveness of board transportation systems as part of each audit, including tests of kilometres and hours claimed, and routing and vehicle selection. They should also report any innovative board initiatives for reducing transportation costs for consideration by other boards.

### Few Boards Tender for Transportation Services

**About 25 per cent of boards responding to our questionnaire used tendering in acquiring transportation services.** The reasons given for not tendering included:

- tendering would create a low-cost competition at the expense of safety and reliability.
- only one operator in the region could provide the service required.

However, one respondent indicated that over $300,000 had been saved by a small board that tendered its bus contracts. Tendering can be a viable alternative provided that service and safety requirements are clearly specified in the Request For Proposal. Moreover, whenever competition is restricted, including where one company has been allowed to gain a monopoly, adequate regard for economy and fairness cannot be demonstrated.

Of the two boards we audited, one tendered for services every three years, although the tendering process was deficient. The other negotiated for services, usually with existing contractors.

## FINANCIAL ACCOUNTABILITY TO TRUSTEES

### Overview

In addition to examining the accountability relationship of school boards to the Ministry of Education, we also examined the accountability relationship of school board administrators to trustees. Our questionnaire was sent to 50 geographically dispersed boards that included a cross-section of small (less than $50 million), large, public and separate boards.

In total, 41 directors of education (82 per cent of the sample) and 27 boards of trustees (54 per cent) responded to the questionnaire. We also received seven responses from minority language sections.

The following two sections summarize the results of our survey. A more detailed summary of the responses to our questionnaire was provided to the Ministry.

### Adequate Arrangements for Financial Management

**Our survey results indicated that school boards had adequate policies and processes in place for responsible financial management.**

Sound financial management requires a high degree of cooperation and effective communication between trustees and administrators. Overall, respondents felt communication was very effective. Only one board surveyed reported a concern.

Financial accountability starts with the budget review process. Over 90 per cent of respondents indicated that trustees were provided with supporting information on major items and increases, comparisons of approved budgets to actual expenditures, and budget transfers. The majority of respondents strongly believed that budget transfers which are significant either in nature or amount should be approved by the board.

Relevant and timely financial information is also necessary. Most trustees indicated they received key financial information on a monthly basis. The types of reports received included monthly expenditure reports, financial statements and status-of-budget reports. Some smaller boards received monthly cheque registers from their administrators.

We looked for specific control and support arrangements in place to assist trustees:

- Over 70 per cent indicated that external expertise was used by trustees to support the decision-making process.
- More than 90 per cent responded that compliance and special reviews were performed by their board's external auditors.
- More than 75 per cent responded that an internal audit or operational review process was in place. However, only 50 per cent of boards with an internal audit function issued reports to trustees.

- About 60 per cent stated that they received performance reports on individual departments or aspects of administration.

- Only 42 per cent responded that they had trustee audit committees, or committees which dealt with audit matters. However, almost 65 per cent indicated that they met regularly with their external auditors who explained the nature and results of audits conducted on their behalf.

Respondents were also asked to rate the effectiveness of each arrangement they had in place. Most ratings fell between three and four out of five. Trustees' and directors' ratings were fairly consistent, although trustees thought more highly of audit committees than did directors.

Measuring and evaluating managerial performance is an important part of the process. Almost 70 per cent of respondents had a policy in place to evaluate the performance of the director of education. Only 50 per cent of small boards had such a policy. Although most boards included financial management in their performance evaluation criteria, eight boards stated that they did not.

Evaluation of other senior administrators, with or without trustee input, is equally important. About 80 per cent of boards had annual appraisals completed for their other senior administrators.

### Greater Clarity of Roles, Responsibilities and Powers Needed

We also examined the extent to which roles and responsibilities of administrators, trustees and the Ministry were clearly defined and understood.

A majority of boards had established by-laws outlining the roles, powers and responsibilities of the board of trustees and its committees. As well, they had policies which defined authority and responsibility for the major expenditure areas, including purchasing/tendering, transportation, staff compensation, asset protection and the overall budgetary process.

However, the legal and policy framework governing the administration of education in Ontario is complex. In addition to the Education Act, there are myriad regulations, contracts, policies and procedures.

**Respondents to our survey indicated, on average, a good understanding of their own powers and authority, responsibilities and duties, and those of the Ministry and their counterparts. However, eight small boards and five large boards rated their understanding quite low.**

Comments included the following:

- "Because the Education Act is vague, the Ministry should provide documentation to school boards on the powers and responsibilities of trustees."

- "Trustees find it difficult to establish the line between developing policy and administering policy."

- "The grant system is not understood by trustees. If trustees are ultimately responsible, they should have a working knowledge and comfort with the grants and impact."

Concern about the clarity of trustee powers and responsibilities was also expressed by the Select Committee on Education (Third Report of the Select Committee on Education, January 1990) and by a number of individual trustees.

## OTHER MATTERS

### More Sharing of Board Resources Should Be Explored

The opportunity often exists for a board to reduce costs by sharing resources with another board or another publicly funded body. The Macdonald Report recommended that boards form cooperative service units to provide and deliver non-instructional support services.

Although our questionnaire did not supply enough information to allow us to measure the depth of sharing, **many boards reported at least some sharing of resources in areas such as transportation, information systems, purchasing of supplies and professional development.**

**However, the majority of boards felt that there were few opportunities and little need for further sharing of resources** because:

- they were already large enough to benefit from economies of scale such as volume purchasing;
- sharing was geographically impractical;
- it would result in a loss of autonomy and control;
- there was too much competition with neighbouring boards; or
- there were insufficient Ministry incentives for sharing.

There were also boards that indicated firm commitments to sharing. One board stated that it met regularly with two other neighbouring boards as a tri-board committee. Areas of cooperation were discussed at every meeting and when an opportunity arose, the three boards cooperated.

We recommended that the Ministry continue to promote cooperation and sharing among boards. Its recognition and encouragement of such initiatives would help ensure that education services were being provided in an economical and efficient manner.

### Closer Monitoring of Under-utilized Schools Needed

Ministry of Education guidelines require boards to develop a policy for school closure because of low or declining enrolment. According to the guidelines, the policy must outline the conditions under which a school will be considered for

closure and provide a minimum time period between identification of a school as a candidate for closure and the final decision of the board. Boards are required to file their closure policies with the regional office.

**The regions made no attempt to ensure that boards were complying with their closure policies or to monitor school utilization rates.** In addition, the regions did not normally try to influence the closure decision as it is a board responsibility.

Maintaining under-utilized schools can be very costly to both local ratepayers and the Ministry. For example, in one of our board inspection audits we noted that an external consultant had estimated that $1.7 million could be saved annually by either closing a particular under-utilized primary school or transferring it to another board. A secondary school that the consultant had also recommended for either closure or transfer had a utilization rate of less than 35 per cent.

Since the Ministry usually funds 60 per cent or more of all capital projects as well as a significant portion of the boards' ongoing operating costs, we believe it should become more involved in monitoring school utilization and adherence to closure policies. In addition, where utilization is unjustifiably low, the Ministry should continue to try to influence board actions through the funding mechanism itself, such as by providing a lower level of grant funding to boards which maintain under-utilized schools.

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**Teacher Wage Negotiations**

On average, teachers' salaries and benefits represent almost 70 per cent of a school board's budget. Contracts are negotiated separately by each board of trustees.

A number of trustees, administrators and Ministry personnel have expressed concerns with the present localized collective bargaining system.

- In effect, **all teachers obtain similar contract provisions despite separate negotiations. Teachers at one board negotiate a contract which serves as a benchmark for those at surrounding boards.**

- **Negotiations leading up to agreements can be very costly for all the Province's school boards.** Costs include food, accommodation and wages for negotiators and other professionals, and the considerable amount of trustees' and administrators' time spent working on the negotiations.

This issue was addressed in the Macdonald Report, which recommended that "the School Boards and Teachers Collective Negotiations Act be amended to provide for Province-wide bargaining of salaries and employee benefits, including the number of days worked, between affiliates of the Ontario Teacher's Federation and trustee associations."

At the time of our audit, the Ministry had not dealt to any extent with this recommendation.

## Education

## Grants to School Boards

RESPONSE

The Deputy Minister responded on September 14, 1990.

FINANCIAL ACCOUNTABILITY TO THE MINISTRY

### *Sound Plans for Improving Accountability to the Ministry*

*"The ministry welcomes your endorsement of its plans. The ministry will meet its commitments as included in its March 1989 report to Management Board on Transfer Payment Accountability."*

ENROLMENT-BASED GRANTS

### *Role of Board External Auditors Unclear*

*"The ministry will explore, with the Canadian Institute of Chartered Accountants, the feasibility of introducing procedures, similar to those used by external auditors for Universities."*

### *Consistent Audit Policy Required*

*"These recommendations are accepted and will be implemented. The ministry will introduce effective September 1990, the accountability measures as outlined in the Ministry Transfer Payment Accountability report to Management Board (March 1989). These measures will ensure that enrolment and transfer payment audits meet province-wide standards."*

TRANSPORTATION GRANTS

### *Deficiencies in Existing Funding Policy*

*"This funding issue is under active consideration in the overall context of the General Legislative Grants."*

### *In-office Reviews Require Improvement*

*"The ministry concurs with this recommendation. The ministry is in the process of establishing standardized checklists for use by the Regional Offices for the school board transportation submissions for 1990/91.*

*"The in-office standardized checklist will assist the Regional Offices to identify school board submissions with significant errors for in-board audit consideration."*

### *In-board Audits Should Be More Consistent and Effective*

*"Standardized audit methodologies across the Regions are being developed. Consideration will be given to addressing the issue of efficiency and cost effectiveness."*

## Comments on Ministry and Crown Agency Audits

### *Few Boards Tender for Transportation Services*

*"The ministry will provide clear direction to all school boards on tendering for transportation services."*

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**FINANCIAL ACCOUNTABILITY TO TRUSTEES**

### *Adequate Arrangements for Financial Management*

*"The ministry is pleased to note that the findings from the questionnaire indicate that communications between trustees and administrators are very effective.*

*"The ministry notes that the survey respondents indicate very strong support for the adequacy of the budget processes in their boards.*

*"The ministry is pleased to note that trustees are generally satisfied with the adequacy of their board's financial information and reporting procedures.*

*"The ministry is pleased that the findings from the questionnaire indicate general satisfaction with the adequacy of board's control and support mechanisms.*

*"The ministry supports the principle of a formalized performance evaluation system for all employees."*

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### *Greater Clarity of Roles, Responsibilities and Powers Needed*

*"In consultation with trustee organizations, the ministry will consider the appropriateness of further clarification to the Education Act."*

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**OTHER MATTERS**

### *More Sharing of Board Resources Should Be Explored*

*"The ministry endorses the concept of school boards sharing resources and will continue to promote cooperation and sharing among boards. The ministry will communicate its support in a memo to school boards on this and other issues raised by the Provincial Auditor."*

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### *Closer Monitoring of Under-utilized Schools Needed*

*"The recommendation will be considered in the review of the Capital Grant Plan."*

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### *Teacher Wage Negotiations*

*"This will be examined as part of any review of Bill 100."*

## Government Services

## Toronto Development Centre Computer Facility

**3.7 Observations on Computer Services and Security, Toronto Development Centre, Ministry of Government Services**

The Toronto Development Centre is a computer data facility administered by Computer and Telecommunications Services (CTS). To recover costs, the Centre sells time and services on its mainframe computers, primarily to Ontario Government ministries. For the 1990 fiscal year, the Centre projected revenues of approximately $13 million and operating costs of approximately $11 million.

### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit of the Centre's operations and related supporting services at CTS' head office included assessments of:

- extent of user satisfaction with processing services; and
- adequacy of security measures.

#### CONCLUSIONS AND FINDINGS

*USER SATISFACTION*

**We concluded that the Centre provided reliable processing services to its customers.**

*SECURITY MEASURES*

**While several security features were in place, measures to protect against unauthorized access were not sufficient. For example:**

- **some staff were bypassing established security procedures; and**
- **the security monitoring system was neither properly maintained nor fully utilized.**

### BACKGROUND

CTS was established by the Ministry to provide inexpensive, secure and reliable computing and telecommunications services to Ontario Government ministries. CTS administers three mainframe data centres: the Toronto Development Centre, the Toronto Production Centre, and the Kingston Regional Computer Centre.

The Development Centre provides processing facilities for applications being developed or tested. In addition, the Centre processes some print runs, such as cheques for payments to vendors, social service recipients, pensioners and Ontario Government employees.

### COMMENTARY

*USER SATISFACTION*

**Reliable Service Provided**

CTS' shared processing services have been growing over the past several years. However, during the same period, CTS lost some customers for various reasons,

including the relocation of some ministries and the shift towards mini and microcomputers.

In order to ascertain the current level of user satisfaction, we conducted a survey. From a list of 19 user ministries, we interviewed 10 individuals who were considered knowledgeable customers.

**The users were satisfied with system response time, quality, performance and availability. They found the service reliable.**

*SECURITY MEASURES*

### Computer Security Violations Monitored

A security software package called the Resource Access Control Facility system is used to provide logical (user access) security for the Centre's mainframe computer. This system requires customer accounts and passwords to be defined before anyone can use the computer and also records unauthorized attempts to access the computer system. We reviewed the Centre's implementation and monitoring of the security software.

System violations and activities were properly recorded and monitored. An authorized user name and a matching password were required to use the computer. System libraries were well protected.

### Adequate Controls over Operating System Changes

The Change Management process is a key support function provided by CTS to ensure the Centre's security. It controls changes to the system software, ensuring that all changes are authorized and authorized changes do not adversely affect the system. All changes to the computer and telecommunication environments are introduced through the Change Management process.

Requests were properly documented. The change process was adequately controlled.

### Disaster Recovery Plan Adequate

Although a specific Disaster Recovery Plan manual had not been printed, the operations manual contained detailed procedures for emergency situations, such as burglaries, riots, bomb threats, medical emergencies and fires. This documentation constituted an adequate Disaster Recovery Plan.

### Physical Security Lapses

**The staff working around the printer room and the tape library room were bypassing established security procedures.**

We observed the following lapses in physical security:

- The door leading to the printer room was kept open on a regular basis. This is an area where potentially sensitive Government reports and large numbers of cheques are printed. Sometimes the door was held open by a piece of wood and the room left unattended. This was done for the convenience of staff, who were moving materials in and out of the room. On many occasions, the door would appear to be closed but was not locked because there was no spring to force it shut. Centre management were aware of this problem, but no action was taken to correct it.

- On two occasions, we observed that the door leading to the tape library room was held ajar for an extended period of time. Many of the tapes stored in this room contain sensitive personal information or back-ups of other important Government data.

- On one occasion, we observed that unerased computer tapes were left unattended in open bags in the corridor of the 18th floor during a lunch hour. Anyone could have taken the tapes and accessed the data stored on them.

- Visitors to the Toronto Development Centre offices were generally not required to wear a visible "visitor" tag. As a result, on several occasions, visitors with unhindered access to the Centre's offices were discovered only after they requested information from members of the audit team.

### Physical Security Monitoring Systems Inadequately Maintained

In addition to Ontario Government security officers stationed in the building, there are three physical security systems that protect the Toronto Development Centre site: a magnetic, card-controlled lock system, a door alarm system, and a video camera system, supplied by the Ministry of the Solicitor General.

**The card-controlled lock system was not properly monitored or maintained. We observed the following deficiencies:**

- Although staff changes had occurred, these had not been reflected in the database that controlled staff access. In fact, the database had not been updated since April 1, 1989, nine months prior to our audit in this area. Hence unauthorized individuals could gain access to the site.

- The system was set up to provide hard copy records of entry and exit activities, allowing management to regularly monitor any unauthorized access. However, these records were not being printed.

**The video camera system and the door alarm system were both disabled.** There were 10 closed-circuit video cameras installed in various areas on different floors. These cameras were connected to a video monitor situated in a security post just outside the computer room. There was also a panel for a fully functional alarm system.

Both systems were disabled, partly due to changes in the use of office space and partly due to the absence of a security officer to monitor the door alarm.

## Comments on Ministry and Crown Agency Audits

We were informed that financial constraints had forced the Ministry of the Solicitor General to reduce the number of security officers stationed at the building. Since no CTS staff were available to monitor the video camera system or the alarm panel, they were turned off. **Although security officers could have monitored this system from their command post in the basement of the building, the monitor and alarm panel were never moved to that location.**

We were informed that a Request For Proposal had been issued for a new security system, and CTS management would do a study to determine the level of security appropriate for the data centre.

**RESPONSE**

The Deputy Minister responded on June 6, 1990.

***Physical Security Lapses***

- *"The print room has limited storage area for print stock which necessitates frequent trips between the adjacent stock room and the print room. Toronto Development Centre (TDC) management has met with all TDC staff and advised them of the physical security requirements of keeping the door to the print room locked when they are moving materials from the adjacent stock room, if the door is going to be left unattended. This is being monitored by TDC management.*

  *"The door frame to the print room which controls the spring action of the door was found to be off centre. A letter was sent to the building manager on May 7, 1990, requesting realignment of the door frame. Building management contractors have begun work on the frame. TDC staff have been instructed to ensure that the print room door is locked at all times when not in use.*

- *"The Tape Library door was kept ajar for an extended period of time to facilitate the relocation of tape media and tape racks from the 18th to the 19th floor, at 25 Grosvenor Street. At all times during the relocation period TDC staff were in the immediate area which data centre management felt was sufficient coverage to prevent unauthorized access to the Tape Library.*

- *"Data Centre management agrees that this* (unattended tapes) *was a lapse in the proper tape handling security procedures. The tapes in question were scheduled for destruction; notwithstanding, the tapes should not have been left unattended in a corridor. Tape Library staff were advised of the infraction and in future no tapes will be placed outside of the Tape Library area. TDC management will continue to monitor this situation.*

- *"The Toronto Development Centre is located on the 17th, 18th and 19th floors of the George Drew Building. Public access to the TDC offices is available on the 17th and 18th floors. The area in question is office space on the 18th floor which does not have a reception area, and is in close proximity to the Input/Output section which has a requirement to provide public access. TDC management agrees that there is a potential exposure to the office space located on the 18th floor. The main door to the office space*

*is equipped with a card entry security system which was used to restrict access after business hours and on weekends. The access to this area has now been changed to 24 hours a day restricted access."*

### *Physical Security Monitoring Systems Inadequately Maintained*

*"The monitoring and maintenance of the existing card-controlled lock system will be improved immediately. This system will be replaced in October by CTS' new card-controlled access system.*

Re: deficiencies in the system:

- *"The database has been corrected. The new system administrator has been trained.*
- *"Continuously printing access information is not necessary, as all the information is available in the database. A paper copy can be prepared, if required.*

*"The video camera system and the door alarm system belong to the Ministry of the Solicitor General (MSG). It is our understanding that these systems were disabled by MSG due to funding constraints. In CTS' opinion, the current card-controlled lock system is adequate until the new system is installed.*

*"The new system will be monitored by CTS staff, however, CTS will obtain quotations on the cost of duplicating the video monitors and alarm panel in the security officer's command post and also approach MSG about undertaking this responsibility."*

## 3.8 Management of Land Acquisition and Capital Construction Generally Adequate, Ministry of Government Services

The Ministry of Government Services is responsible for the acquisition of all real property, except land required for highway use. It also administers the construction and renovation of buildings for all Government ministries.

During the 1990 fiscal year, land acquisitions totalled $26.3 million. In addition, approximately $120 million was spent on 60 active construction projects. The total cost of these projects is expected to be approximately $530 million.

### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit objectives were to assess whether:

- land purchases were necessary and acquired at fair market value;
- the feasibility of the selected construction options was adequately demonstrated; and
- procedures were in place to ensure construction projects were adequately managed.

## Comments on Ministry and Crown Agency Audits

**CONCLUSIONS AND FINDINGS**

*LAND ACQUISITIONS*

**Land purchases were necessary and acquired at fair market value.**

*FEASIBILITY STUDIES*

**For the most part the feasibility of selected construction options was adequately demonstrated. However, in some instances there were inadequate assessments of work to be completed.**

- **The estimated cost of retrofitting an old building had escalated from $4.8 million to $8.5 million.**

*PROJECT MANAGEMENT*

**While the Ministry's procedures were generally satisfactory, we noted some cases where procedures and project management could have been improved.**

- **Reasonableness of Ministry cost estimates and contractors' bids could not be determined because of insufficient information.**

- **Invoices submitted by construction management firms were not adequately reviewed before payment.**

**BACKGROUND**

Each construction project is under the direction of a project manager who plays a key role in providing an integrated approach to project delivery from inception to completion. Architectural and engineering services are normally provided by outside firms on a contractual basis with the Ministry acting in an advisory capacity. Construction work is awarded through a competitive selection process, normally to the lowest qualified bidder.

At the time of audit there were 60 active projects under construction and approximately 40 projects which had received program approval from Management Board. The estimated construction value of all projects was approximately $1.1 billion.

**COMMENTARY**

*LAND ACQUISITIONS*

Before acquiring land, ministries are required by Management Board Directives to obtain two appraisals for each property expected to be valued at over $300,000. Only one appraisal is required for properties likely to be valued under that amount.

The Ministry uses the services of both its own appraisers and appraisers from the private sector.

**Our review of five real estate acquisitions for capital construction indicated that the properties were acquired to meet established program needs and were based on at least two appraisals.**

# Government Services

## Land Acquisition and Capital Construction

*FEASIBILITY STUDIES*

### Overview

Accommodation requirements are primarily determined by the client ministries. These normally include the number and size of rooms and other features required to meet program needs.

When accommodation requirements have been determined, the Ministry of Government Services reviews various alternatives. This may include an evaluation of the suitability of different sites, as well as an analysis of whether to construct a new building or renovate an existing structure.

The selected option is presented to Management Board for approval.

### Costs Exceeded Approved Estimates

As a project progresses from inception to construction and completion, the Ministry prepares various estimates to evaluate and control costs.

In a number of instances, actual construction costs significantly exceeded the earlier estimates on which both the Ministry's and Management Board's assessments and approvals were based. For example:

- In September 1986, the Ministry considered four options for acquiring office space: leasing new premises; constructing a building at a new site; continuing existing lease arrangements; or retrofitting the former Pine Ridge Hospital facility in Aurora. The Ministry estimated that retrofitting the Hospital would save approximately $700,000 over 25 years when compared to the next lowest cost alternative of constructing a new building.

  **In January 1987, the Ministry obtained Management Board approval to proceed with renovation of the facility at a total cost of $4.8 million.**

  However, costs increased due to unforeseen problems and, in October 1988, Management Board approved an increase in the budget to $6.9 million. **In March 1990, the Ministry advised Management Board Secretariat that its estimate to complete the project had increased to $8.5 million.** The Ministry also stated that "on the basis of the current (cost) information, retrofit is no longer the most advantageous financial option."

  Although there were a number of factors which contributed to the significant cost increases, one of the most important was the inadequate assessment of the work to be completed. For example, while the Ministry originally assumed that it could use the original site services and mechanical system, subsequent detailed analysis proved otherwise. The original estimate for mechanical work was approximately $1 million. However, the actual cost exceeded $1.5 million.

- The Ministry obtained Management Board approval to construct a young offender observation facility at a construction cost of $3.4 million. Based on supplemental Management Board approval, the contract was awarded to the lowest bidder for $4.2 million.

  Most of the increased cost was due to higher than estimated electrical and mechanical costs. While the Ministry estimated electrical and mechanical work at $220,000 and $745,000 respectively, the amounts in the lowest bid were $465,000 and $962,000. We were advised that costs were higher than estimated because of under-estimates, design errors and market conditions.

  Also, in discussions with Ministry staff, we learned that the design and construction of the roof of the building may have been much heavier and more expensive than needed. While some roof restrictions did apply because of the facility's use and fire regulations, there was no evidence that alternate roof designs were considered.

  As well, duplicate mechanical controls were installed in two heat recovery units because they were included in two different sets of specifications. One set of controls had been disconnected and was to be removed.

- In December 1987, Management Board approved the renovation of a building and adjacent construction for the Ministry of Correctional Services' new head office in North Bay at an estimated cost of $22 million. At the time of our audit the estimated cost had increased to $30 million.

  Some of the cost increase was attributed to the inadequate assessment of the renovation portion of this project.

*PROJECT MANAGEMENT*

### Good Management Practices Reduced Costs

On a number of projects, proper management by the Ministry resulted in savings to the Government. For example:

- The Ministry estimated that approximately $7 million would be saved as a result of changing its construction approach for the new office building in Sudbury.

  The lowest stipulated bid for construction to the Ministry's specifications was $27.5 million, which was well above the Ministry's pre-tender estimate of $20.5 million. Rather than awarding the contract to the lowest bidder, all bidders were invited to submit proposals using a design-build approach. Under this approach, contractors were required for a fixed sum to design and construct a building which met the Ministry's requirements. The successful bid was $20.2 million.

- Value engineering studies were introduced for three of the Northern Relocation projects. In these studies independent consultants reviewed the design and construction proposed by the architect and suggested possible changes which could reduce costs or improve building utility. For example, the study undertaken for the Thunder Bay office building cost $42,000. However, it was estimated that when the recommendations were implemented, savings in construction costs would total approximately $2 million.

### Reasonableness of Accepted Bid Often Not Established

Contracts for capital construction projects are awarded through a competitive tendering process. With few exceptions, contracts are awarded on the basis of the lowest bid by an acceptable supplier. **To ensure that bids are reasonable, Ministry staff and consultants also prepare a series of estimates culminating in a pre-tender construction estimate.**

However, contracts were often awarded for amounts significantly higher or lower than the Ministry's cost estimates with no documented explanation for the differences. **The Ministry's pre-tender construction estimates and contractors' bids lacked sufficient detail to enable a determination of reasonableness.** For example, most bids only specified the total construction costs.

- In July 1987, the Ministry estimated the cost of building a new facility, to be temporarily used as a laboratory, at $2.8 million including $630,000 for mechanical work.

  In October 1987, the Ministry awarded the construction project to the lowest bidder for just under $3.8 million. This included almost $2 million for mechanical work, more than triple the Ministry's estimate.

  We questioned how the Ministry could have determined whether the costs were reasonable since there was a lack of detail in both the Ministry's estimate and the accepted bid.

- In some instances, construction contracts were awarded for amounts significantly less than estimated. For example, in November 1986, the Ministry estimated the cost of constructing an office complex in Downsview at $17 million, including approximately $4.3 million and $2 million for mechanical and electrical work, respectively.

  However, in January 1987 the Ministry awarded the work to the lowest bidder for $13.3 million. This bid included $2.5 million and $1.2 million for mechanical and electrical work, respectively. Each was approximately 40 percent below the Ministry's estimates.

  Neither the Ministry's estimate nor the low bid was sufficiently detailed to permit effective review. We could find no evidence that the Ministry analyzed the differences.

**Poor Controls over Construction Management Agreements**

In two projects reviewed, the Ministry retained a construction management firm to manage the construction process. This firm provided a number of services including scheduling, estimating, tendering and awarding subcontracts and controlling costs.

Construction management is considered appropriate in large renovations where some uncertainty exists and flexibility is required. This approach permits a construction manager to accommodate unforeseen design or scope changes by tendering subcontracts in stages . It can also speed up the project since some work can be completed before the design of the project has been finalized.

In both cases reviewed, the construction management contract was awarded solely on the basis of the lowest management fee bid. There was no evidence that the firms' competence was assessed before awarding the contract. In addition to the management fee, the firms were paid for the labour and materials they supplied. These firms had an incentive to supply materials and complete work since they were paid for their total costs plus a percentage profit. To the extent that this occurred, materials and labour were not acquired competitively.

In these two projects, the management charges for materials and labour were a significant part of the total construction costs.

- In one instance, one firm was selected based on a bid of $28,000 for managing a project. However, the firm received an additional $1.4 million for material and labour it supplied. This accounted for more than 20 per cent of the total project costs.

- In the second case, payments to the management firm were expected to total $3.7 million or just under 15 per cent of total construction costs. This represented approximately 15 times the $241,000 management fee on which the contract was awarded.

We acknowledged that there was an expectation that some work would be performed by the management firm's staff. However, in the absence of maximum ceiling prices or cost controls in construction management agreements, particularly with respect to a firm's use of its staff, **it is critical that the Ministry ensure billings for these services are reasonable.** In addition, where these billings form a significant part of the total cost, competitive bids should be obtained where possible.

Our review of a sample of payments to the management firms found:

- **There was no evidence that the Ministry performed a detailed review or approved charges for materials and labour supplied by the firms' staff.**

- One management firm marked up the labour charges by ten per cent for overhead and five per cent for profit. These markups, which totalled approximately $96,000, were not specified in the contract.

RESPONSE

The Deputy Minister's response, dated September 14, 1990, included the following comments.

GENERAL

*"I am pleased that several of the Ministry practices which the report has found to be deficient have already been improved or discontinued. Although I had hoped that this audit might address some of the innovations that have been applied to the capital program in the past three years, I believe the findings are fair."*

FEASIBILITY STUDIES

### *Costs Exceeded Approved Estimates*

*"The Management Board submission in September 1986 contained options related to the potential re-use of a surplus property as a method for providing office space in the Aurora area.*

*"The observations reported by the Auditor were known previously to the Ministry and documented in considerable detail by the Ministry in its March 1990 report to the Management Board Secretariat. This information was identified by the Ministry and was shared openly with the audit team.*

*"The Management Board decision to proceed with the retrofit project at Pine Ridge, Aurora, was based on several criteria. The recommended alternative was chosen not solely because it was less expensive, but because:*

1. *It retained a building with architectural and historic importance;*
2. *It satisfied local community concerns regarding the retention of this building and the proposed new uses;*
3. *It permitted the expeditious provision of more functional office space to replace leased space; and*
4. *It contributed to the viable and continuing use of well located property for provincial government programs.*

*"On major construction projects, especially those involving the re-use of existing buildings, decisions must be made sequentially based on the amount and accuracy of information available at the various stages of planning. The Ministry acknowledges that early cost estimates were not as comprehensive or as accurate as those prepared after further analysis was completed, and therefore disagrees that there was 'inadequate assessment' of work to be completed.*

*"The cost increase resulted from more extensive repairs to the structure which were not anticipated and which obviate future expenditures; extensive upgrading of the site services; and higher bids received during an extremely inflationary period in the construction market.*

*"During the design stage detailed analysis indicated that the site services were inadequate to meet fire-fighting and life safety requirements for the new uses and had no spare capacity. Additional capital investment in these site services ensured that the new facilities are adequately protected, that future development can be accommodated and that repair costs will be minimized in the future.*

*"The construction contract for the* [young offenders observation] *facility was recommended for award on the judgement of experienced Ministry staff that it represented a fair price for the facility based on the requirements in the bid documents and on prevailing market conditions.*

*"The Ministry acknowledges that errors in the documents prepared by the architect led to increased costs and to the ultimate termination of his contract.*

*"Several design options for the Head Office, Ministry of Correctional Services, in North Bay were developed and considered by Senior Management. The scheme chosen allows the retention and continuing use of one of the three remaining provincial Teachers' Colleges from the early years of this century.*

*"Construction was started as soon as possible to support the goals of the Northern Ontario Relocation Program with full recognition that repairs to this heritage structure would be extensive. These repairs were more extensive and costly than could have been reasonably expected or predicted by the state-of-condition report."*

PROJECT MANAGEMENT

### *Good Management Practices Reduced Costs*

*"The Ministry is pleased to see the recognition given to these two innovations designed to reduce cost and improve the effectiveness of these projects."*

### *Reasonableness of Accepted Bid Often Not Established*

*"Throughout the progress of the audit, Ministry staff explained normal industry practice related to the preparation of cost estimates and the evaluation of bids prior to the award of contract. It is a normal occurrence in the construction industry for bid prices to be different from the pre-tender cost estimate.*

*"Pre-tender cost estimates are prepared through careful analysis including a detailed take-off of materials and quantities contained within the working drawings and specifications. These cost estimates generally are based upon input prices provided by suppliers to the construction industry. Bid prices on the other hand, reflect the unique situation of each bidding company with regard to the prices it can negotiate for materials and equipment, the amount of labour required to undertake the construction and the productivity levels managed by the company. Finally, a profit margin judged by the company on the basis of their current business position and their eagerness to obtain the contract is included.*

*"Bid prices are highly volatile and reflect both the emotional and economic conditions prevalent within the construction industry at the exact time of the bid closing.*

*"It is impossible to estimate in advance with complete accuracy the manner in which the industry will respond to the bid called and therefore, it is impossible to produce a pre-tender estimate with 100% foresight.*

*"In all cases, valid bids are analysed and compared against the pre-tender estimate and against the range of bids received. Unreasonably high or low bids encourage further evaluation. Ultimately, the bids represent the price that must be paid within a free and open market to complete the work contained within the documents.*

*"Based on the expertise and judgement of the Ministry staff, a recommendation is made for the award of contract including an evaluation of the bid price in relation to the approved project budget. Where the bid prices appear to reflect current market conditions, where delay for re-design is unacceptable, and where bid prices exceed the available project budget, a Management Board submission is prepared to seek an increase in the project budget. A detailed explanation of the reasons supporting the recommendation for award must be included in these submissions.*

- *The bids received on the* [office complex] *at Downsview indicate clearly that the market conditions may change dramatically and that the Ministry can benefit from a more competitive market place. It should be noted that this building was completed successfully in 1989 with significant cost 'savings' to the Province below the initial estimate and the approved project budget."*

### *Poor Controls over Construction Management Agreements*

*"The Ministry accepts the discussion on the use of the construction management approach. However, in most project delivery methods . . . . tight cost control is achieved through a comprehensive project management plan including cost estimates and monitoring of the contract award prices for tendered packages throughout the progress of the work.*

*"It is standard Ministry practice and in the best interest of the Ministry, for the construction manager to undertake work judged necessary to facilitate progress of the project (prevent delay) or to complete work packages that cannot be tendered efficiently. By using the construction manager, delays and thus additional costs are avoided.*

*"Prior to the start of this audit, the Ministry had already revised its policy so that construction management firms will no longer be selected on the basis of price competition for the management fee alone. It should be noted, although it is not mentioned in the audit report, that previous ministry practice involved the prequalification of construction management firms as a first step before short-listed firms were invited to submit cost competitive proposals to undertake the work.*

*"This two stage prequalification process ensured that only firms with appropriate experience and capability were invited to bid for the projects.*

## Comments on Ministry and Crown Agency Audits

*"The Ministry under these contracts did select the construction management firms on the basis of the lowest bid for their management fee. However, the value of this management fee bears little relationship to the ability of the firms and no relevance to the amount of construction work carried out by the forces of the firms themselves.*

*"The Ministry agrees that 'it is critical that Ministry staff ensure billings for these services (provided by the construction management firm) are reasonable'. All work done by the construction management firm itself or sub-contracted out is discussed in detail with the Ministry's staff experts, according to an overall project plan, and is approved by Ministry staff to ensure best value.*

- *Payment approval and processing procedures within the Ministry require every construction invoice, regardless of the contracting method, to be reviewed in detail by the architect, certified for payment and recommended to the Ministry for approval.*

  *Within the Ministry, project staff and branch management also review each invoice in detail to ensure accuracy and validity according to the contract provisions. Ministry procedures are comprehensive and rely on the integrity, skill and judgement of our staff as well as detailed written procedures and standard forms.*

- *In cases of additional work, the Supplementary General Conditions of the Construction Management Contract allow for a mark-up of not more than 10% over cost to allow for a sub-contractor's overhead, plus a further mark-up of not more than 5% on the total to allow for the sub-contractor's profit. Based on the reasonable assumption that the construction management firms are entitled to similar mark-ups, the above mark-ups were applied to additional work carried out by the construction management firms as follows:*

  1. *For Pine Ridge/Aurora, mark-ups of 10% for overhead plus 5% for profit were applied to the labour element only (i.e., costs of materials and rentals were reimbursed at cost without mark-up).*

  2. *For North Bay MCS, a mark-up of 10% for overhead and profit was allowed on force account labour and materials only (i.e., no mark-up was allowed on items of labour and materials which could be considered 'overhead').*

*"In both cases above, mark-ups on additional work by the construction management firm were significantly less than those permitted by contract for sub-contractors."*

# Health

## Nursing Home Services

### 3.9 Improvements Required in Monitoring Nursing Home Services, Ministry of Health

The Ministry's Nursing Home Services Activity provides funding to nursing homes for extended care services to residents. The Activity is also responsible for the inspection and licensing of nursing homes to ensure that residents receive care in accordance with their needs. For the 1990 fiscal year, expenditure for this Activity totalled $428.8 million, of which 99 per cent was paid to nursing homes.


#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit was conducted at the Nursing Homes Branch and at its three regional offices in Toronto, Ottawa and London. We interviewed key personnel at the Branch and regional offices and accompanied Branch personnel on their visits to five nursing homes to gain an understanding of their roles and the operations of homes.

We assessed the Ministry's monitoring of the quality of care in nursing homes.

#### CONCLUSIONS AND FINDINGS

*MONITORING QUALITY OF CARE*

**We concluded that the procedures used by the Branch to monitor the quality of care in nursing homes required significant improvement.**

- **The number and nature of cases selected for in-depth quality of care reviews were inadequate.**
- **Long advance notice of Licence Renewal reviews could allow a substandard home to temporarily comply with requirements.**
- **Licences were renewed without consulting the Fire Marshal's Office about the results of its fire inspections.**
- **Over 40 per cent of homes did not receive any visits in addition to the annual Licence Renewal review. Additional visits are important to ensure care standards are met throughout the year.**
- **Homes were not being referred to the Enforcement Section for further monitoring and investigation.**
- **A number of factors have contributed to a significant decline in prosecutions during 1988 and 1989.**
- **Many complaint investigations were not completed on a timely basis.**

*OTHER MATTER*

**No legislation regulates the standards of care for rest and retirement homes.**

## Comments on Ministry and Crown Agency Audits

**BACKGROUND**

The establishment and operating standards of nursing homes are set by the Nursing Homes Act and Regulation. In September 1989 there were 336 licensed nursing homes with approximately 30,000 beds. About 90 per cent of the homes were privately owned, profit-oriented businesses and the remainder were operated by non-profit agencies. For a number of years, most of the nursing home beds have been occupied.

Residents vary in the amount and types of care they require as well as in their lengths of stay. Persons in need of care may suffer from a large array of physical and mental disabilities. According to information from the Ministry, about 45 per cent of residents in homes are over 85 years old and the majority of the remainder are between 65 and 85.

Residents in nursing homes receive extended care services under the Health Insurance Act. Services provided by nursing homes to residents include nursing and personal care, meals, medical and personal supplies and social and physical activities. Individuals qualify for residency in nursing homes if they require at least 1 1/2 hours of nursing and personal care a day.

The standard daily ward rate of $56.68 was established by regulation and is shared by the resident and the Ministry. For the period November 1989 to January 1990 the resident's share was $23.30.

**COMMENTARY**

*MONITORING QUALITY OF CARE*

### Overview

Prior to 1988, the Branch carried out its mandate by inspecting and licensing nursing homes to ensure they operated in compliance with legislation and provided care in accordance with residents' needs. Qualified inspectors from four disciplines (environmental health, fire safety, nursing and nutritional care) carried out inspections for the annual licence renewal.

As a result of a consulting study on the role and effectiveness of the Branch, a Compliance Management Program to monitor nursing home performance was implemented in early 1988. The major changes to implement this Program were:

- The role of inspecting nursing homes changed in emphasis from enforcement to consultation, with the ultimate objective of assisting homes to achieve compliance with legislated requirements and Ministry policies; and

- The compliance and enforcement functions of its inspection process were separated by creating two sections within the Branch.

In addition, the Branch established policies and procedures to be used by staff in implementing the Program. These procedures were still in the process of being refined and finalized at the time of our audit.

*Licence Renewal Process*

The Nursing Homes Act requires homes to be licensed. Licences are issued by the Ministry for a one-year period and are usually renewed after Licence Renewal

reviews are carried out. However, according to the Nursing Homes Act, where the licensee has applied for renewal and has paid the prescribed fee of $10 before the expiry of the licence, the licence is deemed to continue until renewal is granted.

The Nursing Homes Act and the Health Facilities Special Orders Act provide that the Ministry may revoke or refuse to renew a licence. There have been no licence revocations since 1987.

The Compliance Section of the Branch has three regional offices (Toronto, London, and Ottawa ). These offices are staffed by three Regional Managers and 29 Compliance Advisors. The Advisors are registered nurses and are responsible for carrying out annual Licence Renewal reviews to judge the overall performance of nursing homes. These reviews are usually done prior to the licence expiry date.

The objective in carrying out these reviews is to identify deficiencies in care and services and provide feedback to nursing home management. Advisors are expected to assist nursing home management in preparing acceptable plans of corrective action. Advisors do not apply sanctions for non-compliance with the Nursing Homes Act and Regulation. This is the responsibility of the Enforcement Section.

The role of Compliance Advisors during Licence Renewal reviews extends to all areas of homes. However, where advisors find a need for Environmental and Dietary Advisors to visit a home, such specialists are obtained from the Enforcement Section.

Annual fire safety inspections of nursing homes are carried out by the Office of the Fire Marshal.

### Inadequate Assurance about Outcomes of Care

An important feature of the Compliance Management Program is that Licence Renewal reviews are to focus on the outcomes of care, that is, the changes in the health of a resident that are associated with the care provided. The procedures followed by the Advisors recognize this necessity.

Outcomes of care are assessed primarily through an in-depth quality of care review of a sample of residents at risk. This review focuses on assessing the residents' needs and comparing the care expected with the care actually provided. The process includes observations of the residents, interviews with the residents and staff responsible for their care, as well as reviews of the residents' medical records.

According to Branch policy the sample of residents for the in-depth review is to be selected from residents recommended by the home and by Advisors during their walk-through of the homes.

To assist homes and Advisors in identifying these residents, the Branch issued guidelines with respect to minimum size and composition of selected samples. However, we understand that the minimum sample sizes have no statistically supportable basis.

Although Advisors generally followed the established procedures for reviews, in most files we examined **the sample sizes of residents selected were only about half of the required minimum.** For example, during a review in March 1989 only six of 326 residents in a home were selected for the in-depth quality of care review.

The suggested composition of the samples was heavily weighted towards high risk residents, such as those with critical diseases or with functional impairments. In order to conclude about the outcomes of care of all residents in a home, residents should be grouped by their care needs and an appropriate sample taken by the Compliance Advisor from each group.

**Because of the small sample sizes and the manner in which samples were taken, results could not be generalized with any pre-established accuracy about the outcomes of care for all residents of a home. Inadequate assurance, therefore, was being obtained about the outcomes of care in homes.**

We recommended that appropriate procedures be established and monitored by the Branch.

### Long Advance Notice Inappropriate

Significant variations existed among Advisors with respect to the advance notice they were giving homes of their annual Licence Reviews. **The amount of advance notice varied from one or two days to one or two months. Long advance notice allows a substandard home the opportunity to bring itself into temporary compliance.**

At the conclusion of our audit, however, the Branch had established a policy which required that homes be given a maximum of one week's notice of the planned review date. Further, where an Advisor determines that advance notice would distort findings at the home, reviews can be carried out without advance warning.

### Licences Issued without Consulting Fire Marshal's Office

In September 1988, the responsibility for fire safety inspections in nursing homes was transferred from the Branch to the Office of the Fire Marshal. **The Branch was then required to ask the Fire Marshal's Office if it had any concerns about homes coming up for licence renewal which might affect the Director's decision to renew the licences. However, this was not being done.**

The Fire Marshal's Office informed us that reports of fire inspections of homes had been sent to the Branch. Our review of 14 Licence Renewal files revealed six fire inspection reports from the Fire Marshal's Office. While the remaining eight reports were not on file in the Ministry, we were informed by the Fire Marshal's Office that the inspections had been done.

Of the six inspection reports on file, three were carried out before licences were issued. However, the files did not indicate whether the contraventions of the Fire Code noted in the reports were rectified before the licences were issued. For example, an inspection report dated March 23,1989 noted seven violations (e.g. the chimney, flue and flue pipe were not inspected annually and the fire safety plan was not approved by the Fire Chief). The violations were to be corrected by April 24,1989 or the home would be prosecuted. Nevertheless, the home's licence was renewed on March 30,1989.

### Most Homes Received No Additional Visits

In addition to annual Licence Reviews, visits throughout the year, with minimum advance notice, are important to ensure care standards continue to be met and to run an effective Compliance Management Program.

**However, for the period January to November 1989, over 40 per cent of the homes did not receive any additional visits from Compliance Advisors.** The consensus of 14 Advisors interviewed indicated that a minimum of two or three visits during the year was required for all homes. They felt that even more visits were necessary for problem homes.

We also noted from Ministry records that no home was referred by Compliance Advisors for visits by Environmental Health Officers and only two homes were referred for visits by Dietary Officers.

We recommended that the Branch establish guidelines and procedures for the minimum number of additional visits to be made to homes each year by Advisors.

### Stronger Enforcement Needed

The Enforcement Section is located in Toronto and its staffing includes nine Enforcement Officers from the disciplines of nursing, nutritional care, and environmental health and safety. The functions of Enforcement Officers include:

- investigating all complaints and incidents of abuse;
- carrying out special investigations as assigned by the Director;
- taking over the monitoring of nursing homes from the Compliance Section where consultation, education and collaboration are not effective; and
- applying sanctions for non-compliance with the Nursing Homes Act and Regulation.

According to Branch policy, the presence of any of the following situations will cause a review to determine whether a transfer to the Enforcement Section is required.

- Widespread or recurrent failure to meet pre-established standards and criteria.
- Negligence or failure to take all reasonable steps to avoid a particular event, condition or occurrence.

- Lack of positive response, co-operation or collaboration on the part of the home to achieve standards and criteria.

At the time of our audit in December 1989, there were only two homes under review by the Enforcement Section. Both had difficulty meeting financial obligations with their suppliers and employees. Management of the Branch felt that these financial difficulties might affect the residents' care and safety and a decision had been taken to transfer the two homes to Enforcement.

We discussed the transfer of homes to Enforcement with the Manager of Enforcement, and the Compliance Advisors at each of the three Regional Offices visited. **From a review of the files of homes indicated by these staff, an additional nine homes were identified which should have been in the Enforcement Section.** For example, several reviews of a home between February 1988 and February 1989 by Advisors noted over 90 findings, including 30 repeat findings. These included inadequate nursing care to meet residents' needs, some residents not receiving care as directed by a physician, and some residents not receiving care to prevent skin disorders.

There is also a potential conflict between the consulting and regulatory roles of a Compliance Advisor. In a consulting role, there is an incentive for Advisors to keep working with homes as long as possible before referring them to Enforcement. Advisors may be too understanding and lenient towards substandard homes. Consequently, homes may not be referred to Enforcement when they should be.

Failing to make appropriate referrals to Enforcement means that homes which may be providing substandard care are not being dealt with effectively. Accordingly, we felt that there was a need for the Branch to periodically perform independent reviews of the activities of Advisors. These reviews would also ensure that the various Branch policies and procedures were being followed.

### Significant Decline in Prosecutions

Under the Nursing Homes Act, an operator of a home who contravenes any provision of the Act or Regulation can be prosecuted and, upon conviction, is liable to a fine. Prosecutions and convictions for the period 1984 to 1989 are illustrated in the following table:

| Year | Homes Charged | Charges Laid | Convictions |
|---|---|---|---|
| 1984 | 20 | 497 | 117 |
| 1985 | 8 | 41 | 6 |
| 1986 | 24 | 111 | 12 |
| 1987 | 9 | 19 | 6 |
| 1988 | 3 | 12 | 6 |
| 1989 | 0 | 0 | 0 |

Some of the charges laid included:

- not maintaining a clean, sanitary home in a good state of repair;
- not storing food at a proper temperature and humidity to prevent contamination or spoilage; and
- not providing proper and sufficient care to safeguard the residents' health and to maintain personal hygiene.

**The significant decline in prosecutions during 1988 and the absence of prosecutions in 1989 can, in part, be explained by the new Compliance Management approach. This approach focuses on the resolution of deficiencies by consultation rather than on prosecution. Additionally, as indicated previously, homes have not been properly transferred into the Enforcement Section. Moreover, the results of judicial decisions have shown that violations of many provisions of the current Regulation cannot be successfully prosecuted.** Prosecutions have also been hampered by a limitation period under the Provincial Offences Act which comes into effect six months after the actual occurrence of an offence rather than after the point of its discovery.

There is a recognized need for substantial revisions to the Nursing Homes Act and Regulation to make current provisions enforceable. The Branch believed it might not be desirable or practical to revise all areas of the Regulation (e.g. nursing issues), without receiving specific policy direction. However, it had not pursued revisions to the Regulation in dietary and environmental areas where it was advised that they were possible.

### Complaint Investigations Not Completed on a Timely Basis

The Nursing Homes Branch receives and investigates complaints relating to the operations of nursing homes and the care of residents. Where a complaint gives the Branch reasonable and probable grounds to believe that the health, safety or welfare of a resident may be at risk, the Nursing Homes Act requires that it be investigated immediately. The Branch had established a policy which, in general, required an investigation to be completed within 20 working days of receiving such a complaint. For the period November 1988 to November 1989, 322 complaints were received by the Enforcement Section of the Branch.

To assess compliance with the requirements, we **reviewed 270 completed investigations. Seventy of the investigations exceeded the Branch's policy of 20 working days to complete. Of these, 16 took over 70 days to complete. Four of these complaints were serious in nature and dealt with allegations of abuse or negligent care. However, the investigation of these serious complaints had not begun until 23 to 55 days after they were received.**

An official of the Enforcement Section acknowledged that a number of complaints had not been investigated within the acceptable time limits and that action had been taken to rectify the situation.

## Comments on Ministry and Crown Agency Audits

*OTHER MATTER*

**Rest and Retirement Homes**

Rest and retirement homes are privately owned facilities which provide residential care, including supervision and assistance with activities of daily living.

In 1987 the Office for Senior Citizens' Affairs surveyed rest and retirement homes to determine the size and features of the homes, a profile of residents, and the care and services provided. The survey identified over 23,600 beds in 535 homes. An official of the Office informed us that, since the survey, it has informally identified a further 6,000 beds.

**Unlike nursing homes, there is no legislation establishing the standards of care for rest and retirement homes.** In 1989, the Advisory Committee on Rest and Retirement Homes recognized in its report to the Minister for Senior Citizens' Affairs the need for legislation to regulate care in these homes.

**RESPONSE**

The following response was received from the Deputy Minister on September 11, 1990.

MONITORING QUALITY OF CARE

***Inadequate Assurance about Outcomes of Care***

*"The Ministry acknowledges that the actual number sampled was, in some cases, less than the sample suggested in the draft guideline developed in the initial stages of our compliance management program implementation. The Ministry is reviewing the appropriateness of the sample size guidelines in question, and ensuring that advisors are aware of this requirement.*

*"However, other files selected on the basis of high risk diagnoses were also reviewed, and more importantly, this file review process is only one of a number of indicators though which a Compliance Advisor can ensure that quality care is being provided."*

***Long Advance Notice Inappropriate***

*"The Audit Report acknowledged the Ministry's efforts to ensure that Homes receive notice of visits a maximum of one week in advance. Furthermore as the Audit Report noted, visits of this type can and do happen with no notice in unusual cases."*

***Licences Issued without Consulting Fire Marshal's Office***

*"The Fire Marshal has the clear primary responsibility for ensuring compliance with fire safety standards. The Ministry is now ensuring that fire safety officials have discharged their responsibilities prior to the issuance of a licence."*

### *Most Homes Received No Additional Visits*

*"... due to the timing of the implementation of compliance management, a large percentage of the Homes sampled did not receive a follow up visit within one year of licensing. Since the Audit was completed, with the fuller implementation of the program, this issue is being successfully addressed. A minimum of two follow up visits is expected."*

### *Stronger Enforcement Needed*

*"The objective of Compliance Management is to work collaboratively with homes to ensure that they meet statutory requirements and provide a safe environment for residents. As owners are made more clearly aware of Ministry expectations, it is natural for a greater number to comply and hence not require enforcement. In cases where a home is failing to meet Ministry expectations, they are placed in enforcement. It should be noted however, that the Ministry's objective is then to obtain improvement in the home's performance, ensuring safety and quality of care for the residents. With this accomplished it is intended that the home move back into the compliance mode of review.*

*"The decision to move a home from compliance to enforcement is made by the Director, on the advice of the Managers of Compliance and Enforcement. Compliance Advisors' opinions are considered by Regional Managers, and these managers are responsible for recommending this action to the officials noted above. The decision to move a home to the enforcement mode has been, and will continue to be made, in the best interests of the residents.*

*"As a matter of course, Regional Offices are requested to identify those homes who might be considered for enforcement. The nine homes mentioned in the Audit Report were suggested through this process for evaluation. Of these nine, three were deemed to require enforcement. Two remain in enforcement and are being closely monitored. Furthermore, two additional homes moved from compliance to enforcement, and back to compliance, since the start of 1990. Three more are expected to go into enforcement by September 30, 1990."*

### *Significant Decline in Prosecutions*

*"Prosecution is but one of a number of measures that can be used to safeguard the public interest in the Nursing Home Program. The Ministry acknowledges the declining rate of prosecutions, but notes that 5 convictions were obtained in 1989 and 7 charges have been laid to date in 1990.*

*"The Audit Report acknowledged the serious difficulties in securing meaningful sanctions through the courts. Furthermore, reducing prosecutions is an expected benefit of the compliance management approach.*

*"In defining the accountability relationship between Government and Homes for the Aged/Nursing Homes in the reformed Long Term Care system, care will be taken to minimize the requirement for court imposed sanctions due to their inherent limitations."*

## Comments on Ministry and Crown Agency Audits

### *Complaint Investigations Not Completed on a Timely Basis*

*"The Audit Report refers to the Branch's policy of 20 working days to complete investigations. This policy refers to the process of receiving a complaint, investigating, and reporting orally to the Enforcement Manager. Generally it is not expected that the required paperwork would be completed within the 20 day period.*

*"A complaint tracking system has been implemented and two nursing positions in the Enforcement Unit have been filled. The Ministry is examining the possibility of using local Compliance Advisors as the first line of response to complaints. Since the Audit terminated significant improvement has occurred and the new measures noted here should ensure further improvement."*

OTHER MATTERS

### *Rest and Retirement Homes*

*"Historically, municipalities have monitored rest homes with a particular focus on fire and public health standards.*

*"This matter has been the subject of ongoing discussions with municipalities and a number of provincial ministries."*

## 3.10 Concerns with Access to Extended Care Beds, Ministries of Health and Community and Social Services

In conjunction with our audits of the Ministry of Health's Nursing Home Services Activity (see Section 3.9) and the Ministry of Community and Social Services' Homes for the Aged Program (see Section 3.4), we reviewed the access to and supply of extended care beds at nursing homes and homes for the aged.

SUMMARY

OBSERVATIONS

**There were significant delays in the placement of individuals in extended care beds. Additionally, the Provincial guideline for assessing the adequacy of the total supply of extended care beds had not been revised since its inception in 1972.**

**In May 1990 the Government released a paper outlining the strategic directions for reforming long-term care and support services.**

COMMENTARY

### Extended Care Bed Utilization and Waiting Lists

Complete information on extended care bed utilization and waiting lists for beds was not available from the Ministry of Health systems reports for the 1990 fiscal year. Therefore, in order to obtain further information we contacted various organizations which are involved in placing the elderly in long-term care facilities.

## Health/Community and Social Services

## Access to Extended Care Beds

Our analysis of the information obtained indicated significant delays in placement in extended care beds in both nursing homes and homes for the aged. It also indicated long waiting lists for extended care beds in nursing homes. For example:

- **The overall average wait for an extended care bed was 100 days.** The average wait was 78 days for someone in a hospital and 130 days for someone waiting in the community. Moreover, there were significant geographic variations. The residents of one county had an overall average wait of only 33 days while those in another county had to wait an average of 191 days. Individuals with heavier care requirements generally waited longer than other individuals.

- **At least 4,000 individuals occupied acute care beds in hospitals during the 1990 fiscal year while waiting for extended care beds. These individuals waited, in total, at least 220,000 days for extended care beds.** The full impact of these delays is difficult to establish. However, if these individuals had been occupying extended care beds, instead of acute care hospital beds, we estimated that the individuals would have contributed at least $5 million in co-payments for their room and board.

- **Approximately 3,600 individuals were waiting for extended care beds in nursing homes. The waiting list amounted to over 20 per cent of the 15,500 beds surveyed.** The survey did not provide sufficient information on waiting lists for extended care beds in homes for the aged.

### Supply of Extended Care Beds

Planning for the supply of extended care beds in specific areas of the Province was carried out by District Health Councils. Additionally, **a Provincial bed supply guideline had been established in 1972 for assessing the adequacy of the total supply of extended care beds. The guideline is 3.5 extended care beds for each 1,000 persons in the population.** Apparently the guideline had been based on an estimate of the number of extended care beds available in 1972, divided by the total Provincial population at that time. There was no indication that the waiting time to access a bed had been considered. **Even assuming that the guideline was valid when it was established, it had not been revised to take into account the increased percentage of elderly in the population.**

The guideline was used in the Ministry of Health's publication, "Provincial Bed Situation 1989 - 1994," to determine the total extended care beds required for the Province. The publication showed that the total number of beds required in 1989 was 33,580, compared to 42,620 beds available. **However, the apparent surplus of approximately 9,000 beds was inconsistent with the fact that virtually all the beds were occupied.**

## Comments on Ministry and Crown Agency Audits

### Long-term Care Reform

Effective April 30, 1990, the nursing homes program of the Ministry of Health and the homes for the aged program of the Ministry of Community and Social Services became the responsibility of the Residential Services Branch of the new Community Health and Support Services Division. This change brought the two programs responsible for long-term residential and extended care beds under a single management structure with reporting responsibilities to the Deputy Ministers of both ministries.

On May 30, 1990, the Government released a paper entitled "Strategies for Change, Comprehensive Reform of Ontario's Long-Term Care Services." The purposes of this paper are to outline the strategic directions for reforming long-term care and support services and to provide a framework for community discussion. A number of elements of the reform relate to nursing homes and homes for the aged. These elements include:

- access to long-term care in homes through service access organizations to be established across the province;
- funding that will recognize the varying levels of care needed by residents of homes; and
- establishing consistent accountability and program standards for both types of homes.

The paper recognizes the problem of inappropriate uses of acute care hospital beds for individuals requiring long-term care or support services. Elements of the reform strategy directly address the issue of individuals requiring heavy extended care.

**RESPONSE**

A joint response was received from the Deputy Ministers of Health and Community and Social Services on September 14, 1990.

*"Your report comments on the demand for extended care services in the Province, as well as the adequacy of the Ministry of Health's Extended Care Bed to Population ratio. Your report is very timely, given our current efforts to restructure our approach to long-term care, so as to prepare us for the challenges of an aging society. The Province has embarked on a comprehensive reform to develop a coordinated and integrated system of services that will meet the needs of the Province's elderly and physically disabled citizens.*

*"Your report acknowledges the directions contained in 'Strategies for Change: Comprehensive Reform of Ontario's Long-Term Care Services'. You also acknowledge that one of our key reform strategies is aimed at resolving access problems and inappropriate placement for persons with heavy care needs.*

*"We would like to take this opportunity to briefly highlight our overall thinking with respect to the concerns you have identified in your report. Our objective in the reform for long-term care facilities is to ensure the existing bed supply is used as effectively as possible, by strengthening the capacity of facilities to serve residents who require heavy and more complex care.*

# Health

## Home Care Assistance

*"In order to meet our objective of effective bed utilization, the reform will support the development of a system of community based service alternatives, thereby limiting the need for overall growth in the facility sector. In cases where clients cannot adequately be maintained in the community, access to facilities will be coordinated and managed through a new case management and service coordination program called the Service Access Organization. This agency will direct people requiring heavy care to appropriate long-term care facilities and reduce the number of persons inappropriately placed in acute care settings. The reform will further reduce pressure on chronic care beds by equipping Nursing Homes and Homes for the Aged to serve heavy care residents.*

*"This will be achieved through the development of a new funding policy, and updated standards of care. Our new funding formula will match resources with client needs, and will eliminate the categories of Residential Care and Extended Care. Policies which limit the scope of services currently allowed in Nursing Homes and Homes for the Aged will be updated to match current health care practice.*

*"A consistent accountability framework is being developed for both Nursing Homes and Homes for the Aged to ensure these new service standards are achieved. A study to determine the future role of Chronic Care Hospitals in the reformed system, and in light of substantial improvements to service in Homes for the Aged and Nursing Homes, will be undertaken in the very near future.*

*"Currently under development is a comprehensive and integrated information system that will not only track bed utilization and waiting lists, but will also gather valuable planning data on the characteristics of clients in both facility-based and community-based programs. A local integrated planning capacity will allow for a more sensitive and refined approach to gauging the requirement for new long-term care services, be they facility or community based.*

*"We trust this provides you with an overview of our reform strategies which are designed to enable our facilities to function more effectively and to provide solutions to problem areas which have been identified in the current system."*

3.11
**Opportunities to Improve Economy, Home Care Assistance, Ministry of Health**

The Ministry spent $305 million in the 1990 fiscal year on the Home Care Assistance Program. Each day, assistance was being provided to an average of 45,000 patients in their homes.

**SUMMARY**

**SCOPE AND OBJECTIVE**

We assessed the economy of the Home Care Assistance Program.

We visited five local programs throughout Ontario and conducted personal interviews with Home Care providers and other health care professionals. We also reviewed research studies and used a questionnaire to solicit information from nurses.

## Comments on Ministry and Crown Agency Audits

### CONCLUSION AND FINDINGS

**Generally, Home Care was being provided economically. However, there was scope for improved economy in delivering certain aspects of assistance.**

- **Nursing services could realize significant savings by delegating a portion of the nurses' workload to nursing assistants. For example, a five per cent delegation would represent an annual saving of almost $3 million.**

- **In many instances, unnecessary nursing visits were made to satisfy eligibility for Home Care. Cost saving potential amounts to several million dollars annually.**

- **Ontario spends approximately $45 million annually on oxygen, mainly for Home Care patients, without any competitive purchasing requirements.**

**Home Care could play a more important role in the delivery of health care services throughout the Province.**

- **It was estimated that 15 to 30 per cent of hospital patients could be cared for at home. At the time of our audit the Long-term Care Reform Committee of the Province was examining this issue.**

**We also noted that high turnover and insufficient training have contributed to complaints of unreliable homemaking services. Recently, some positive steps have been taken to improve the wages, training and working conditions of the homemakers.**

### BACKGROUND

The Ministry's Home Care Assistance Program delivers nursing and other support services such as homemaking to eligible acute and chronic patients in their homes. Home Care services are delivered across the Province mainly by Public Health Boards and the Victorian Order of Nurses, through 38 local programs.

To be eligible to receive Home Care services a person must satisfy nine conditions, including:

- being under the medical supervision of an attending physician;

- having a medical condition such that adequate treatment can be provided at home with the services available through the Home Care Program; and

- needing at least one of the professional services, i.e. nursing, physiotherapy, occupational therapy or speech therapy, a minimum of three times a month.

Auxiliary services which may be provided while on the program include homemaking, transportation, dressings, laboratory tests and Meals-on-Wheels.

## Health

## Home Care Assistance

Patients can be referred to the local program by anyone. A case manager, usually a nurse, is assigned to assess the individual's eligibility to receive Home Care services. The case manager, in consultation with the patient's physician and other professionals, the patient and his or her family, authorizes the services required.

Expenditures for Home Care have almost tripled from $105 million in the 1985 fiscal year to $305 million in the 1990 fiscal year.

COMMENTARY

### Potential for Savings from Delegation of Nursing Functions

Local Home Care Programs contract nursing services mainly from the Victorian Order of Nurses (VON) and the St. Elizabeth Visiting Nurses Association (SEVNA).

For the 1989 fiscal year, there were approximately 3.5 million nursing visits to patients at a cost of $96 million. This represented approximately one-third of the program's total costs.

Most nursing services are provided by registered nurses (RNs), although the Health Insurance Act permits the use of registered nursing assistants (RNAs).

To ascertain whether some of the functions performed by RNs could be performed by other trained care givers, we reviewed the Standards of Nursing Practice for Registered Nurses and Registered Nursing Assistants from the College of Nurses of Ontario, the Home Support training material for homemakers from the Canadian Red Cross (Ontario), and the course guidelines for the Health Care Aide program from the Ministry of Colleges and Universities. These indicated that a number of functions could be delegated to an RNA, health care aide or trained homemaker. Examples included:

- assisting persons from bed to a chair/stretcher, or with crutches, walking, walkers, or cane;
- measuring temperature, respiration, height and weight;
- assisting with passive and active exercises; and
- assisting with personal hygiene such as washing hair, oral care, bathing, shaving and skin care.

Also, 85 per cent of nurses who responded to our survey of VON nurses indicated that a portion of their work could be delegated to an RNA or health care aide. On **average, they estimated that 25 per cent of their duties could be delegated.** For chronic care patients, where more personal care might be required, it would be feasible to use more RNAs and para-professionals. In acute care cases, greater use of RNs would be more likely.

The extent to which delegation of duties would translate into delegation of visits is a matter for further study. **However, even a five per cent delegation of RN visits to RNAs would represent an annual saving of almost $3 million.** This calculation is based on hourly rate differences between an RN and an RNA. Additional savings would result if delegation could be made to health care aides and homemakers who are remunerated at lower rates.

We were informed that in other provinces, for example Manitoba and Alberta, health care aides work under the general direction of a nurse where significant personal care is involved. According to information obtained from VON (Canada), approximately 30,000 visits were made by health care aides to Home Care patients in the 1989 fiscal year.

We recommended that the Ministry explore the potential for cost savings in Ontario through delegation of more nursing tasks.

### Unnecessary Nursing Visits

To be eligible to receive and continue to receive Home Care services, a patient must require at least one of the professional services a minimum of three times a month. In our survey of VON nurses, two-thirds of those who responded replied that they had Home Care patients who did not need, but were receiving, three visits a month in order to qualify for auxiliary services such as homemaking. **On average, respondents estimated that almost ten per cent of patients fit into this category.**

Under the existing requirements these patients are not eligible to receive any Home Care services. However, while these patients do not need three nursing visits per month, there is evidently a belief that they do need Home Care services and that, accordingly, eligibility requirements should permit some flexibility.

We recommended that the Ministry examine the cost saving potential of allowing discretion in the application of the minimum visit requirement. **For example, a reduction of one visit per month would result in savings of approximately $5 million, based on the nursing visit rate at the time of our audit.**

We acknowledged that discretion would have to be exercised cautiously to ensure that only those patients who genuinely needed Home Care Services were admitted to the Program.

### Excessive Prices Paid for Oxygen

The local Home Care Programs order oxygen for patients who require oxygen therapy. Vendors install the necessary equipment and invoice the Ministry's Ontario Drug Benefit Program or Assistive Devices Program. The local programs did not have procedures in place (such as tendering) to ensure that prices obtained were the most economical.

## Health

## Home Care Assistance

**Based on our review of a large sample of vendors who have invoiced the Ministry for oxygen supplies, prices ranged from $8 to $36 for cylinders of the same size.** The following table illustrates the price variations:

| Location | Price for Size B Cylinder | Price for Size E Cylinder |
|---|---|---|
| Markham | $ 8.00 | $10.00 |
| Kitchener | 17.30 | 21.55 |
| Cornwall | 19.25 | 29.35 |
| Goderich | 34.00 | 30.00 |
| Owen Sound | 36.00 | 31.50 |

**We also noted large variations in prices within the same city. According to Ministry records, prices paid to vendors in one city for the same sized cylinder during the 1989 fiscal year were:**

| Vendor | Unit Price | Amount Paid to Vendor in Fiscal Year |
|---|---|---|
| A | $45.00 | $ 723,400 |
| B | 33.00 | 1,531,600 |
| C | 53.00 | 1,456,300 |

**Ontario spends approximately $45 million annually on oxygen, mainly for all patients not in institutions. There is scope for significant savings through proper tendering procedures.**

The Ministry has recognized the need for rationalization of the prices paid for oxygen provided in peoples' homes and was planning measures to control costs and to ensure appropriate use of oxygen. We were also informed that the Ministry was expected, over time, to shift this responsibility to the Province's long-term care system now under development.

### Potential for Significant Savings from Reduced Stay in Institutions

We interviewed 22 doctors and 9 officials from the Ontario Medical Association and local Home Care Assistance Programs in Toronto, Ottawa, Kingston and London.

**Those interviewed agreed that between 15 and 30 per cent of patients occupying hospital beds could be treated at home, if some basic services were made available.** Examples of services being carried out in institutions that could be carried out at home included homemaking and attendant care and help with the use of equipment such as pain pumps, dialysis equipment, and oxygen therapy.

Most of the hospital patients who could be treated at home were not under Home Care because they did not require the minimum three professional visits a month or periodically required more intensive care than the program allowed.

Treatment at home is generally considered beneficial both for the patient and the health care system. The patient is usually happier, treatment at home could be less expensive, and it could help alleviate the bed shortage at various institutions.

In quantifying the potential for reduced institutionalization, we also reviewed research studies carried out by the health community.

- Doctors surveyed by York University researchers on this topic estimated that 15 per cent of the time patients spent in hospital was unnecessary.

- Various American and Canadian medical research papers outlined the success of medical services at home. According to one study, intravenous antibiotic therapy at home for 1,800 patients saved 35,000 hospital days or $9 million. In another study, a home-based pulmonary function was found to have saved at least 50 per cent of the cost of hospitalization.

Studies have shown that many patients suffering from diseases such as cancer and kidney or lung disorders could be treated at home cost-effectively. The studies have estimated the cost savings at 40 to 70 per cent of the hospital cost. There are approximately 50,000 hospital beds in Ontario. The average per diem hospital cost is $350. Assuming a cost saving of 50 per cent, there is a potential saving of $30 million annually for every one per cent of hospital beds that are vacated when the patient is treated at home.

To realize these savings, amendments to the existing legislation and policies would be required. The savings might not be realized in absolute dollars as the unused beds would probably be occupied by other patients waiting to receive treatment. But the beds would be made available for more needy patients.

**To optimize the use of health care resources, the Long-term Care Reform Committee of the Province has been reviewing the role of the Home Care Assistance Program in the overall delivery of health care services and the Province plans to amend the existing policies and legislation.**

### Improvements Under Way in Homemaking Services

After nursing, homemaking is the largest cost component in the Home Care Assistance Program. It includes light housekeeping, personal care, meal preparation and grocery shopping.

During the 1989 fiscal year, the Home Care Program purchased over 6 million homemaking hours for a total cost of $58 million. This represented almost 30 per cent of patient care costs. Homemaking services are provided by both commercial and not-for-profit agencies. The largest agency is the Canadian Red Cross, which provided over 40 per cent of the total homemaking hours.

The Ministry of Health administers the purchase of homemaking services. However, it is the Ministry of Community and Social Services that develops and implements all important policies pertaining to homemaking.

## Health

## Home Care Assistance

To evaluate the quality of homemaking services we interviewed Program officials and an advocacy group, and reviewed the complaint files. Of the five local programs in our review, only one had extensively documented complaints received about services provided or equipment used. In the other four, the majority of complaints had been resolved verbally and therefore were not documented. Most complaints were related to the unreliability of the homemaking services. For instance, we found concerns with:

- homemakers not showing up or being late. In some instances, the homemaker was absent for a week or more.
- homemakers not delivering the services requested by the Home Care Program.
- homemakers leaving the job. For example, one patient had 25 homemakers over a 12-month period.

Given the scarcity of hard data, we attempted to determine whether there were inherent problems that would result in poor service.

*Lack of Training and Turnover of Homemakers*

In the 1988 fiscal year, an Interministerial Group, comprising the Ministries of Community and Social Services, Health, Skills Development, and Colleges and Universities, and the Office of Senior Citizens Affairs, conducted a study of homemakers.

**The study revealed that homemakers were poorly trained and paid.** On average, they had earned $5.25 an hour in the 1987 fiscal year, with few agencies paying for travel time. **Consequently, the turnover rates were high, exceeding 50 per cent in many agencies.** The Group concluded that the homemaking wage rate was the single most important factor in determining the ongoing viability of the visiting homemaking system. Also, the Group recommended that only homemakers who had a minimum acceptable level of training (Level II Home Support Program offered by the Red Cross and community colleges) should be eligible to provide publicly funded in-home services.

In 1989, the Ministry of Community and Social Services surveyed 169 commercial and not-for-profit organizations which provided homemaking services to local Home Care Programs. The survey found that less than half of the homemakers had the minimum level of training recommended by the Group.

The survey also showed that not-for-profit organizations spent more on wages, training and travel reimbursements. They also experienced lower turnover. We were advised that many commercial agencies were providing in-home training and would therefore not incur a direct cost.

| | Commercial | Not-for-Profit |
|---|---|---|
| Number of homemakers | 6,700 | 6,900 |
| Hourly wages paid to homemakers | $5.72 | $6.14 |
| Travel-related costs | $.7 million | $4.2 million |
| Training-related costs | $.3 million | $1.3 million |
| Turnover rates | 100% | 50% |

**In November 1989, the Ministry of Community and Social Services announced an increase of $29 million in the funding for homemakers. The increased funding will ensure that homemakers working on publicly funded programs will be paid a minimum of $7.25 per hour. As well, agencies are to be required to pay homemakers for travel time between patients in addition to the compensation for travel costs. The increased funding also includes $2.2 million to provide for training.**

Homemaking is an important part of the Program and gives patients the support needed to remain at home. In future, its importance is likely to grow. The strategy developed by the Long-term Care Reform Committee of the Province emphasized more in-home services. A substantial increased demand is also expected due to the Province's aging population.

**RESPONSE**

The Deputy Minister included the following responses in his reply dated September 7, 1990.

### *Potential for Savings from Delegation of Nursing Functions*

*"The Ministry agrees that further delegation of nursing tasks should be explored. Since homemakers are the community equivalent of nursing aides, a number of initiatives have taken place to enhance the supply, quality, and funding for this group of workers.*

*"In addition, the Ministry continues to encourage the independent nursing agencies to use Registered Nursing Assistants, where possible, and the nursing agencies are making renewed efforts in this area.*

*"The report on the Comprehensive Reform of Ontario's Long-Term Care Services entitled 'Strategies for Change' notes that 'the role of the registered nurse may change, with greater emphasis on assessment, planning, supervision, and provision of specialized care. At the same time, there is a need to re-evaluate in-home nursing services to determine the ways in which registered nursing assistants and trained attendants could assume a greater role.'"*

### *Unnecessary Nursing Visits*

*"The Ministry agrees that the current minimum service limits, while serving to ensure that only appropriate cases are admitted to the program, could result in the provision of unnecessary services.*

## Health

## Home Care Assistance

*"In designing the new system of services under the Long-Term Care Reform the issue of appropriate service limits is being addressed within the context of the expanded mandate for the program."*

### Excessive Prices Paid for Oxygen

*"Responsibility for the oxygen program is currently under the Drug Program Branch and the Assistive Devices Branch. As part of the Long-Term Care Reform Strategy the services will be moved to the Community Health and Support Services Division in the future.*

*"A strategy to address cost, rationalization and standardization of practice is being undertaken.*

*"The Ontario Medical Association, along with the Ontario Thoracic Society, have developed physiological eligibility criteria to determine the appropriate use of oxygen. These criteria are being implemented to assess eligibility. As well, physicians have been encouraged to use the guidelines in prescribing oxygen for all clients who may require oxygen.*

*"A pricing survey of invoice costs has been undertaken to better assess the variations in pricing across the province. The results of the survey will serve as background for future negotiations with suppliers.*

*"An overall Vendor Agreement is being designed for discussion with the industry. The agreement will include the terms and conditions under which vendors will be eligible for reimbursement from the Ministry of Health. Issues relating to quality assurance, service, aftermarket service, product liability and protocols with home care programs, assessors, prescribers and hospitals will be included.*

*"Existing arrangements for the pricing of oxygen as well as related equipment and services will be reviewed and revised.*

*"Administrative changes in relation to the oxygen program are to be implemented prior to its transfer under Long-Term Care in 1991."*

### Potential for Significant Savings from Reduced Stay in Institutions

*"This issue will be addressed in the process of policy development in relation to the reform of Long-Term Care Services."*

### Improvements Under Way in Homemaking Services

*"The observations and recommendations made by the Provincial Auditor will be incorporated in the plans being developed for the restructuring of Long-Term Care Services."*

## Comments on Ministry and Crown Agency Audits

### 3.12 Use of Information Technology Consultants, Ministry of Health

The Ministry's Information and Systems Division develops, implements, and maintains health information systems to serve the Ministry's corporate and program managers, as well as health care providers, planners and researchers.

During the 1990 fiscal year, the Information and Systems Division awarded 187 consulting contracts totalling $8.8 million.

#### SUMMARY

#### SCOPE AND OBJECTIVE

We examined 94 consulting contracts awarded since October 1988. Our sample selection was based on the ceiling price and time patterns of the contracts and the length of time the consultants had been with the Ministry.

We assessed adherence to Government policies and procedures in the acquisition of consulting services.

#### CONCLUSION AND FINDINGS

**For the most part, the Division adhered to Government policies and procedures. However, its continued reliance on some consultants was uneconomical and in conflict with Management Board Directives.**

#### BACKGROUND

Consulting services are acquired for a fee on the basis of a defined assignment relating to management, information technology, technical consulting or research and development.

The Ministry's Information Technology Operational Plan for the 1991 fiscal year projects an increase in the use of consultants as a result of numerous system changes. For example, the re-registration of every Ontario citizen with a unique health number requires an entirely new system to process health information. Because the increased development effort will be short-term and will require highly specialized technical resources, the Ministry will use consultants to provide these resources during the development of the systems.

Systems Development Branch currently uses four consultants for every ten employees. The Branch expects to increase this ratio to 16 to 10 over the next few years. By the 1995 fiscal year, most system changes will be implemented and this ratio is expected to decline to three consultants for every ten employees.

#### COMMENTARY

**Adherence to Requirements**

The purchase of consulting services must conform to the key principles set out in Management Board Directives:

- Consulting services shall be acquired through a competitive process whenever possible with the objective of obtaining the best value for the funds to be expended.

## Health

## Information Technology Consultants

- From among qualified bidders for assignments (i.e., those satisfying all mandatory requirements), the ministries must select the consultant with the lowest evaluated cost and the capability of completing the assignment to the satisfaction of the ministry.

- Ministries must acquire consultants in such a manner as to avoid any conflict of interest, not permit a vendor to gain a monopoly for a particular kind of work and not continuously rely on a particular outside vendor.

**We found that the Division was generally adhering to these principles, with one major exception. The employment of some consultants on an ongoing basis was both inappropriate and uneconomical.**

*Continued Reliance on Consultants*

For example, two consultants had been continuously contracted since 1984. In the 1990 fiscal year, a consulting company was paid a total of $367,000 for the services of the two consultants. Their last contracts, for a seven-month period, paid $950 and $800 a day. The Ministry stated that the consultants' responsibilities would have been equivalent to those of full-time staff earning $450 and $320 a day, including benefits.

The Ministry could have saved $120,000 on these two contracts alone if it had used full-time staff rather than consultants.

The directive that ministries must not continually rely on an outside organization is intended to provide vendors with fair access to consulting assignments. Where there is a recurring need for particular expertise, hiring full-time staff is generally less expensive than continuously hiring consultants, and prevents consultants from gaining a monopoly on a particular kind of work.

*Lack of Formal Evaluations*

Management Board Guidelines recommend a written evaluation of a consultant's performance on completion of an assignment. Such documentation is to identify issues for improving future contracted assignments.

Written evaluations were prepared for only six of the 94 assignments we examined.

**RESPONSE**

The Deputy Minister's reply, dated September 11, 1990, included the following comments.

### *Adherence to Requirements*

*"Information Systems Division management welcomed the opportunity to co-operate with the Office of the Provincial Auditor during this review. We regard an independent review as an important part of management's own efforts to provide effective resources management.*

*"We were pleased with the general findings of the report that the Ministry was properly tendering for the acquisition of consulting services and was following government policies and procedures."*

## Comments on Ministry and Crown Agency Audits

Continued Reliance on Consultants

*"The Division agrees with the principles noted in the Management Board Guideline regarding the continued reliance on consultants. The above noted occurrence that resulted in the long-term arrangement was due not to planned decisions.*

*"The process began with the proper awarding of tenders that were won by the best qualified consultants. The Ministry is aware of its dependence on the two consultants in relation to the redesign of the Health Insurance System. The Ministry regards the complexity of the work performed by these individuals as equivalent to the responsibilities of a senior executive in the public service. Were such individuals, with the required experience, expertise and program knowledge available, the Ministry would naturally prefer to operate on that basis."*

Lack of Formal Evaluations

*"The Division management agrees that formal evaluations of a consultant's performance, upon completion of an assignment, would be beneficial to the Ministry. The previous practice had been only to document examples of poor performance. The recommendation to evaluate all consultant performance on the completion of an assignment will be adopted."*

### 3.13 OHIP Billings Adequately Monitored, Provider Services Branch, Ministry of Health

The Provider Services Branch monitors the eligibility of billings by doctors and other health practitioners for services under the Ontario Health Insurance Plan (OHIP). During the 1990 fiscal year, OHIP billings totalled over $4 billion.

#### SUMMARY

#### SCOPE AND OBJECTIVE

We assessed the adequacy of the Branch's monitoring procedures.

#### CONCLUSION AND FINDINGS

**The Branch was adequately monitoring OHIP billings:**

- **Computerized Medical Rules developed by the Branch were identifying invalid billings by doctors.**
- **The Physician Monitoring System was generally working well in identifying unusual billing practices.**
- **The Ministry was developing measures to prevent abuse of the provisions for out-of-province treatment of Ontario residents.**

**However, there were conditions inherent in the system that reduced the effectiveness of monitoring procedures:**

- **An average of less than 10 per cent of doctors with unusual billing practices were referred for further investigation and adjudication.**

# Health
# Billings to OHIP

- **Since 1986, the number of doctors and services has increased faster than the population.**
- **Over the past five years there has been a trend towards higher fee services.**

## BACKGROUND

There are approximately 18,000 physicians and surgeons in Ontario. In 1989, approximately 200 million services (including laboratory services) were performed and billed.

Payments to physicians, surgeons and other practitioners eligible to bill OHIP increased from $2.7 billion in the 1986 fiscal year to $4.2 billion in the 1990 fiscal year, or approximately 55 per cent over the four-year period. This represented an average annual increase of about 12 per cent.

The Provider Services Branch has a staff of 40, approximately one-third of whom are doctors, located at Head Office and four regional offices. The Branch has been set up to:

- monitor billings made by doctors and other practitioners and act as the initial adjudicator in fee disputes;
- monitor payments made to other provinces and countries for health care provided to Ontario residents; and
- control over-utilization of the OHIP system.

## COMMENTARY

### Adequate Review of Billings

Before billings are accepted as correct for payment, medical consultants check them using computerized Medical Rules which reject billings that do not meet programmed criteria. Examples are those that exceed maximum fees under fee schedule codes or frequency restrictions and duplicate billings.

**The Rules have generally been working well in uncovering invalid billings.** In 1989, this review detected and prevented payments of $98.7 million in invalid billings, 60 per cent of which were duplicate billings. These were largely situations where the doctor did not receive payment from the Ministry by a certain date and rebilled.

Payment verification letters are sent each month to a random selection of patients who have had recent claims for medical services registered under their OHIP numbers. The letters request confirmation that the patients received the services for which OHIP was billed.

Over 6,000 letters are issued each month. Of the close to 70 per cent who respond, over 99 per cent confirm that the services were provided. Negative responses are investigated and have resulted in some referrals to the Medical Review Committee of the College of Physicians and Surgeons. The MRC has been designated under the Health Insurance Act to investigate and adjudicate fee payment disputes between doctors and the Ministry.

### Adequate Procedures to Identify Unusual Billing Patterns

A computerized Physician Monitoring System was developed in 1983. This System identifies questionable billing patterns by comparing them to a pre-defined model. Doctors making such billings are compared with their peers and measured against five broad criteria (total billings, number of patients, number of services, cost per service, and variations in fee schedule codes used by the particular speciality). Billing patterns identified as unusual are analyzed and referred to the MRC if improper billing is suspected.

When a doctor is referred, the MRC reviews the patients' files and evaluates the billings. If the MRC believes there is evidence to justify proceeding, it holds a hearing. The doctor is entitled to bring counsel. After the hearing, the MRC can agree with the doctor's position or recommend that the payment be partially or totally recovered.

**The Physician Monitoring System was generally working well in identifying questionable billings**. However, we recommended that it be refined to highlight significant variances in specific services or procedures. At the time of our audit, billings that were well out of the acceptable range in a particular procedure were unlikely to be identified as long as the doctor's overall activity fell within the average practice.

*Lack of Referrals*

For each of the four years up to and including the 1989 fiscal year, the Physician Monitoring System identified between 750 and 800 doctors with unusual billing patterns. **However, less than 10 per cent of these were referred to the MRC.**

The Ministry informed us that the low percentage of referrals was partly because of MRC's lack of success in proving cases. This in turn was partly due to ambiguities in fee schedules, inadequate patient records and lack of prescribed standards of practice.

In the more than 700 cases not referred to the MRC, reasons were not kept on file. There were no written guidelines for determining when a doctor should be referred to the MRC. In 1984, we also commented on this lack of documentation. The Ministry indicated then that a more formal recording and evaluation process would be put in place, but no action had been taken.

On average, the MRC recommended 35 cases a year for recovery of at least some of the fees paid, a total of $3.5 million for the four years. The doctors involved represented only 0.2 per cent of doctors in the Province.

### Increased Supply of Doctors and Higher Fee Services

According to a 1989 report of the Premier's Council for Health Strategy, a major contributor to rising Ontario Health Insurance expenditures has been the increase in the supply of doctors.

The World Health Organization recommends a doctor per capita ratio of 1:600. Ontario has an average ratio of approximately 1:500.

## Health

## Billings to OHIP

Most physicians and surgeons are paid on a fee-for-service basis. We compared the number of doctors to the number of services between 1986 and 1989 and found:

- **The number of active general practitioners increased from approximately 8,700 to 9,500 (8 per cent) while the population increased from approximately 8.2 million to 8.6 million (5 per cent).**

  **The number of services provided by general practitioners increased in direct proportion to the increase in the number of general practitioners (not to the increase in the population).**

- **The number of specialists increased from approximately 7,900 to 8,600 (8 per cent) while the number of patients receiving specialist care increased from 1.05 million to 1.08 million (3 per cent).**

  **The number of services rendered increased by over 10 per cent.**

**We also observed a tendency between 1984 and 1989 to provide higher fee services.** We acknowledged that, in part, this was due to an aging population and greater use of high technology equipment in diagnosis and treatment. However, the fee schedule allowed doctors considerable flexibility. For example, the 1989 fees for minor, intermediate and general assessments, for which total payments amounted to over $750 million, were $15.10, $22.90 and $44.90 respectively. **In the five-year period:**

- **minor assessments declined by over 5 per cent, and**

- **intermediate and general assessments increased by 35 per cent and 20 per cent respectively.**

The Ministry recognized that there were problems with the rapidly increasing number of doctors combined with the open-ended fee-for-service payment system. It imposed a 20 per cent reduction in residency posts over the five-year period between 1987 and 1992. As well, only 24 positions were to be available each year for the foreign internship program.

### Good Efforts to Control Out-of-Province Payments

When Ontario residents travel outside the Province, they continue to be covered by OHIP. The coverage is 100 per cent for emergency care and 75 per cent for non-emergency treatment.

For the 1990 fiscal year, $120 million was paid to various health care institutions and professionals outside the Province. Non-emergency care accounted for $48 million or 40 per cent, up from 30 per cent three years earlier. Approximately 90 per cent of the payments were made to facilities in the United States.

The Branch was concerned that some out-of-province claims had been inflated. It investigated claims for non-emergency heart-related treatment in the U.S. and found that amounts billed from Michigan hospitals were significantly above those of other states for comparable treatment. The Michigan average was $25,000 compared to approximately $20,000 for other states submitting billings for similar treatment.

The Branch suspected that some Michigan hospitals had been inflating their costs for Ontario patients so Ontario's 75 per cent payment would cover their full cost.

*Drug and Alcohol Addiction*

In 1990, treatment of drug and alcohol addiction accounted for $20 million, up from $7 million in 1989. The public's perception of the lack of treatment facilities for drug and alcohol abuse in Ontario was the major reason for patients going to the U.S. However, the Branch was concerned that U.S. hospitals were luring patients from Ontario. Selling aspects used in recruiting patients included paying their air fare to and from a U.S. hospital and limousine service to and from the airport.

**At the time of our audit, the Ministry had delayed payment on approximately $500,000 in claims from U.S. hospitals. It suspected that costs had been inflated and that the claims were generated by individuals or organizations on behalf of patients recruited for treatment in the U.S.**

**We were informed that the Ministry was planning measures to prevent this situation from recurring.**

**RESPONSE**

The Deputy Minister responded to our report on September 11, 1990.

***Adequate Procedures to Identify Unusual Billing Patterns***

*"The Provider Services Branch is developing a more sophisticated computer Physician Monitoring System to examine patterns of utilization and practice.*

*"It is difficult to demonstrate misrepresentation or lack of medical necessity in relation to individual services or procedures. It has been concluded that the threshold parameters for referral to the Medical Review Committee should be based on an analysis of practice patterns for at least one year.*

*"The new system will initially focus on monitoring physician diagnostic procedures, patient return visits, and patient referral patterns for consultations, diagnostic procedures and laboratory services.*

*"The new physician profiles computer system will identify physician practices that are significantly above average.*

*"It is proposed that district medical consultants will contact these physicians to review their patterns of practice. The monitoring process will be continued as appropriate after the consultation process has taken place."*

Lack of Referrals

*"The Branch conducts a professional assessment of the profiles identified through computer analysis. After this review process had been completed, approximately 10 per cent of the physicians identified initially were referred to Medical Review Committee of the College of Physicians and Surgeons for further examination.*

## Intergovernmental Affairs
## Information Technology Purchases

*"Individual files were not established for physicians that were identified but not referred to Medical Review Committee. Summary lists, however, were maintained providing a brief description for the rationale. In future more detailed documentation will be maintained based on more standardized recording procedures."*

### *Increased Supply of Doctors and Higher Fee Services*

*"The Ministry agrees with the summary information provided which indicates that the number of physicians as well as the number of insured services have been increasing at a more rapid pace than the increase in population in Ontario.*

*"The Government has been holding discussions with the Ontario Medical Association to develop a new broader framework for future negotiations recognizing the important role that physicians occupy in the provision of health care services across the Province."*

### *Good Efforts to Control Out-of-Province Payments*

*"The policy framework for the coverage of out-of-country health benefits is currently under review recognizing that there has been a recent upward trend in the provision of insured health benefits for elective procedures.*

*"The Ministry is continuing to monitor service utilization patterns. It is anticipated that the review process will be completed for implementation in 1991."*

## 3.14 Concerns over Information Technology Purchases, Ministry of Intergovernmental Affairs

The Ministry of Intergovernmental Affairs was established in 1978, with the mandate to "identify and advance Ontario's interests and to conduct relations with the Government of Canada, the other provinces and territories of Canada, and governments abroad and their representatives in Ontario."

The Ministry had expenditures of $8.2 million for the 1990 fiscal year and a staff of 77 employees.

### SUMMARY

#### SCOPE AND OBJECTIVE

An objective of the audit was to assess whether expenditures of the Ministry were made in accordance with Ministry and Government policy.

#### CONCLUSIONS AND FINDINGS

*PURCHASE OF GOODS AND SERVICES*

**In most cases, expenditures were made in accordance with Ministry and Government policy. However, we identified some deficiencies in the area of information technology.**

## Comments on Ministry and Crown Agency Audits

**Over $700,000 was invested in information technology over a three-year period without adequate planning or cost-benefit analysis.**

**In some cases, policies and procedures set out by Management Board were not followed nor purchases justified. For example:**

- **The Ministry's strategic plan did not provide adequate analysis of monetary benefits, nor justification for computer features or configuration.**
- **Relevant advice from the Ministry of Government Services was not incorporated into the acquisition process.**
- **Computer equipment was purchased with more sophisticated features and at a cost of up to $100,000 more than needed.**
- **Two acquisition proposals totalling $287,000 lacked meaningful information upon which any reasonable analysis could be made.**
- **$60,000 of hardware and software purchased was not being used.**

### BACKGROUND

To achieve its mandate the Ministry delivers three major programs: Federal-Provincial Relations; International Relations; and Protocol Services.

The Ministry shares basic administrative services such as accounting, personnel, purchasing and internal audit with the Ministry of Treasury and Economics. A Finance and Administrative Services Branch and a Communications Branch support the major activities of the Ministry. The Communications Branch also provides program information services to other ministries and offices abroad.

### COMMENTARY

*PURCHASE OF GOODS AND SERVICES*

During the 1989 fiscal year the Ministry purchased over $2.8 million in goods and services from various sources.

We reviewed a sample of these expenditures to ensure that competitive procedures were used when applicable and that expenditures were made in accordance with Ministry and Government policy.

**On the basis of our audit tests we concluded that expenditures were generally made in accordance with Ministry and Government policy. However, we had some concerns in the following area.**

#### Information Technology

Prior to the 1987 fiscal year, the Ministry had invested well below the Government average in information technology. With a staff of 69 in January 1987, the Ministry's inventory of computers included 6 personal computers and 17 word processors.

## Intergovernmental Affairs
## Information Technology Purchases

At the time of our audit in October 1989, the computers and word processors on hand in January 1987 had been disposed of, and the Ministry had purchased 83 personal computers (including 13 laptops), 38 printers and various other peripheral equipment for a staff of 73. **Total costs amounted to approximately $548,000 for computer hardware, $85,000 for computer software and $110,000 for consulting services provided to support computer training, strategic development, management and the maintenance of computers.**

The history of these acquisitions demonstrates the importance of proper planning and the evaluation of benefits versus costs, prior to the purchase of information technology.

*Justification for Purchases Lacking*

In January 1987 the Ministry produced an internal strategic plan for the acquisition of information technology. This plan included details on the Ministry's environment, strategic directions, impact of technology on improved productivity and the specific needs in the information technology area. **However, the plan did not provide adequate analysis of the monetary benefits associated with these purchases. Nor did it provide justification to support a computer configuration or the number or quality of computers required.**

In February 1987 the Ministry signed a contract for $15,000 with the Ministry of Government Services, Computer and Telecommunication Services Division (CTS) to produce a tactical and operational plan. A draft report was issued in March 1987 which contained much of the information missing in the Ministry's strategic plan. It also indicated that the Ministry would have to commission a project to determine detailed system requirements. The draft report supported the Ministry's plan for "an integrated office system" (network) to take advantage of integrated features such as text sharing and electronic mail. **Our discussions with CTS indicated that this draft was not acceptable to the Ministry and was never issued in final form.** CTS indicated that the Ministry had already proceeded with the tender to purchase computer equipment in March 1987.

In March 1987, 17 stand-alone personal computers, 9 laser printers and software for a local area network were purchased. Eight vendors responded to the Ministry's request for tender and the lowest bid was accepted.

Although we had no concerns about the basic equipment purchased, we questioned the need for the sophisticated features added on to the basic computers in light of the Ministry's plan to proceed with a local area network:

- Laser printers - The need for almost a three-to-one ratio of computers to printers would be too high in a local area network.

- Colour monitors - The purchase of colour monitors at up to $1,400 per monitor could not be justified. Discussions with Ministry staff indicated that the colour monitors purchased were to allow for greater productivity in word processing. At the time of audit the Ministry

operated 13 portable computers without colour monitors and did not incur significant production problems. If colour monitors were necessary we felt that less costly monitors would have been sufficient.

**The additional costs of purchasing sophisticated features exceeding network needs could have been as high as $100,000.**

*Inadequate Support for Purchases*

In November 1988, Management Board issued two new directives on information technology. These directives, titled "Management of Information Technology" (MB Directive 7.1) and "Information Technology Planning" (MB Directive 7.2), along with the existing directive "Data Processing Equipment and Services" (MB Directive 7.10), form the policies and guidance in this area. We reviewed the purchase of information technology by the Ministry for compliance with these directives.

No significant purchases of information technology were made in the 1988 fiscal year. In mid-February 1989 Ministry documents identified a "$327,000 estimated year-end flexibility (which was) proposed to be used to acquire information technology that would allow a computer for almost every person in the Ministry, consistent with the Ministry's information technology strategic plan." **The Ministry proceeded to develop two acquisition proposals for information technology totalling $287,000.**

**These proposals lacked content and meaningful information upon which any reasonable analysis could be made.** For example:

- Both proposals included a business case as required by Management Board. However, both stated that the "monetary or non-monetary benefits of this proposal cannot be quantified." Management Board directives specifically require that "The business case must itemize in monetary terms all costs, benefits and accumulated benefits on a year-to-year basis until a trend of continuing benefits is ascertained."

- Both proposals also included an analysis of renting versus purchasing a mini/mainframe computer with a network of terminals. However, the only business case put forward for these alternatives was that a mainframe would cost over $500,000.

  The proposals rejected networking at that time due to the associated costs. This was contrary to the original strategic plan of 1987 and to the current proposed strategic plan of the Ministry.

In March 1989 the Ministry purchased over $349,000 of computers, peripherals, printers and related software. In our opinion, further analysis could have identified cost savings in the proposals that would have allowed the Ministry to proceed with the development of a network at that time.

## Intergovernmental Affairs
## Information Technology Purchases

*Unused Hardware and Software*

Included in the purchases made in March 1989 were:

- a computer twice as fast as the Ministry's standard computer with three times the memory at a cost of $29,000, including hardware and software. The reason given for the purchase of this computer was the development of a database of dignitaries. Subsequently the database was developed using the Ministry's standard computer and available software. The new computer was being used for other purposes and the software purchased for $3,700 was not being used at all.

- a slide maker for $12,400 to make high quality slides for audio visual presentations. Two slide makers were considered for purchase with one being half the cost of the other. The more expensive machine was chosen as it made more professional slides.

  Another alternative to purchasing a machine would have been to have slides made by an outside vendor at an initial cost of approximately $300 and ongoing costs of $8 per slide.

  As of October 1989 this machine remained unopened in storage.

- three CD Roms (Compact Disc storage units) costing $4,900. One was being used in communications, another to access recent computer articles and the third remained in storage. Two software packages costing $2,000 for use with these units remained unopened in storage.

- a colour graphics printer for $1,300. This printer was in storage, unopened.

- a laptop computer purchased for $6,300 which had been in storage for six months in need of repair.

**In total, hardware and software costing approximately $60,000 were in storage and not being used.** We felt that this clearly indicated the lack of an appropriate needs assessment and justification prior to the purchases being made.

**RESPONSE**

The Deputy Minister responded on May 7, 1990.

### *Information Technology*

*"Most of the findings in the report are in some way related to the non-existence of a good, adequate, approved strategic plan.*

*"A senior manager has been assigned the responsibilities of the Corporate Information Executive and that person will be accountable to the Deputy Minister for compliance with the principles and mandatory requirements contained in the Management Board Directive 7.1."*

Justification for Purchases Lacking

Strategic plan: *"The Ministry has now developed a strategic plan in compliance with Management Board Directive 7.2, which will address the concerns mentioned in the report. The report was submitted for Management Board's approval on March 30, 1990.*

*"The installation of a local area network is the basis of the plan. The Ministry's investment in technology will be fully utilized and has been taken into consideration in the cost/benefit analysis of the plan.*

Ministry of Government Services commissioned report: *"This report was received in draft form only. For reasons unknown to us the relevant advice contained therein was not incorporated into the acquisition process.*

Purchase of equipment with highly sophisticated features: *"The Ministry agrees that this took place. A good strategic plan would have probably prevented these actions. However, all of this equipment will be used in setting up the network."*

Unused Hardware and Software

*"The Ministry agrees with the comment. However, the high speed and high capacity computer will be utilized as a server on the local area network. The Ministry's strategic plan calls for an emphasis on information retrieval, and the CD-ROMs will be used as more subject data bases become available in this format. The colour graphics printer is being set up to produce maps for itineraries, etc. for the Premier, VIPs and others."*

## 3.15 Observations on the Ontario Provincial Police Field Operations and Quartermaster Stores, Ministry of the Solicitor General

The Ministry spent $416 million in the 1990 fiscal year (Vote 3504) for the Ontario Provincial Police (OPP) to police the provincial highways and those areas without a municipal force. This total included expenditures for Field Operations and the Quartermaster Stores Branch of $289 million and $4.5 million respectively.

### SUMMARY

#### SCOPE AND OBJECTIVES

For Field Operations and the Quartermaster Stores, our audit included assessments of whether:

- field staff were assigned and utilized efficiently; and
- supplies were purchased economically and adequately controlled.

# Solicitor General
# Ontario Provincial Police Operations

## CONCLUSIONS AND FINDINGS

*FIELD OPERATIONS*

**The assignment and utilization of field staff were satisfactory. The use of a selective response system resulted in better direction of resources. However, there were opportunities for improvement. We found that:**

- **Both criminal and other occurrences and OPP officers' vacations were generally highest in the summer months, while the rate of crimes solved was lowest. Also, detachments had a tendency to understaff on weekends.**

- **The amount of time spent by field officers on administrative duties was significant. Each one per cent reduction in administrative time would contribute more than 75,000 hours a year for use in other areas.**

- **Officers' administrative time could be reduced through the increased use of civilian staff and a more efficient reporting system. A new automated system being developed should reduce time spent on reporting.**

*QUARTERMASTER STORES*

**Supplies were economically purchased and adequately controlled.**

- **Controls over the purchase and issue of inventory operated well. Inventory levels had been reduced since our last audit and were properly controlled.**

- **Security over weapons had improved considerably.**

*OTHER MATTER*

**The majority of speeding tickets were issued for speeds well over the limit. On average, tickets were for speeds 26 kilometres / hour over the limit.**

## COMMENTARY

### Overview

The OPP is divided into three major activities: Services, Field Operations and Investigations. Its staff of approximately 5,700 includes about 4,500 uniformed officers.

As a front-line law enforcement agency for the areas within its jurisdiction, the OPP field staff are responsible for a variety of enforcement activities. In 1988, OPP officers investigated over 84,000 motor vehicle accidents and laid over 680,000 charges for infractions under the Highway Traffic Act, the Criminal Code of Canada, the Liquor Licence Act and other statutes.

Our audit was conducted at Head Office and included visits to seven districts and a number of detachments throughout Ontario. We used a questionnaire to solicit information and opinions from district and detachment commanders as well as police officers. We also used Government databases to generate statistical reports summarizing OPP data. In addition, we revisited many of the issues noted in our 1985 audit.

## Comments on Ministry and Crown Agency Audits

*FIELD OPERATIONS*

### Selective Initial Response System Working Adequately

During our 1985 audit, we noted that the OPP was testing a Selective Initial Response (SIR) system which was designed to reduce the amount of time spent on minor occurrences. The system would allow officers to avoid or delay responding to minor occurrences, such as noisy parties or petty disputes, if it was apparent that no law enforcement action was required.

**The OPP subsequently implemented the SIR system, which ranked occurrences and resulted in better direction of resources.** Approximately 70 per cent of detachment commanders indicated that the system was in place. The remainder indicated that SIR was not necessary in their particular location. Officers using the system found it beneficial.

### Inadequate Summer Staffing

Officers' time off should correspond to periods of low criminal and other occurrences to the extent possible. In our 1985 audit, we found that 47 per cent of vacation time was taken during the summer. **Over the last three years, summer vacation scheduling has been reduced to approximately 40 per cent. However, further improvement was warranted:**

- occurrences were highest during the summer months.
- **criminal code clearance rates (crimes solved) were lower in the summer months than in the winter months.**
- 60 per cent of respondents to our questionnaire indicated that the scheduling of vacations in the summer had an adverse effect on the level of service provided.

We acknowledged the OPP policy that allows members with children attending school to take at least one week of vacation during July or August. However, summer vacations could be reduced significantly while still maintaining this policy.

### Inadequate Weekend Staffing in Some Detachments

The OPP had developed several work schedule formats. Each detachment commander was responsible for selecting the schedule which provided the most effective match of staff to workload. For detachments with unique occurrence patterns, commanders could design customized work schedules.

We selected 30 detachments to determine how the scheduling of staff related to the pattern of occurrences over a one-year period. We refined the available data by adjusting duty hours to remove court, training and administrative time, thus identifying only those duty hours when officers were available to respond to occurrences.

**Our analysis revealed a tendency to understaff the weekends relative to the rate of occurrences.** For instance, in one detachment, while almost 45 per cent of all occurrences were on weekends, less than 30 per cent of duty hours were assigned on weekends.

We recommended that the OPP assign staff more in accordance with the pattern of occurrences.

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**Need to Reduce Administrative Time**

In 1985, we found that officer time spent on administration varied between 30 and 40 per cent, depending on the district. In this audit, we found similar results in a review of 34 detachments (14 districts) over a three-year period. **Out of a total of 2.8 million available hours, almost a million hours or 33 per cent was spent on administration.** We were also informed that under the new Police Services Act, administrative time, especially training, was expected to increase.

The results of our questionnaire revealed considerable concern over the amount of time spent on administrative duties. A common complaint from constables was that they were too busy with paperwork to go out and patrol. Patrolling was ranked by both constables and detachment commanders as one of their top three functions, yet according to questionnaires, on average only 15 per cent of total time was spent on patrol. Reducing administrative work would allow for more pro-active policing.

**While no ideal percentage for the amount of administrative work had been established, each one per cent reduction in the rate would save more than 75,000 hours a year that the OPP could use in other areas.** For example, reducing the rate from 33 to 25 per cent would result in a reduction of over 600,000 hours a year. In terms of staffing, 600,000 hours is equivalent to 300 officers.

Respondents to our questionnaire suggested that more efficient reporting methods would reduce the time officers spend on administration. Respondents also suggested more extensive use of civilian staff.

*More Efficient Reporting Required*

A majority of detachment commanders and field officers believed that **a more efficient reporting system was necessary to reduce the amount of time spent on paperwork.** A common complaint with both officers and commanders was that the same information was being repeated on a number of forms. For instance, one detachment commander indicated that a drug seizure would result in the same data being recorded at least four times.

**The OPP plans a wide implementation of the Ontario Municipal and Provincial Police Automation Co-operation (OMPPAC) System in the near future.** Police forces participating in OMPPAC are linked to a main computer (housed at OPP General Headquarters) by a communication network which allows them to store and retrieve data. This system could:

- minimize duplicate data entry;

- reduce officer time spent on reporting; and
- enable supervisors to assess the workload and status of investigations more quickly.

*Potential for Further Use of Civilian Staff*

Approximately 20 per cent of the OPP are civilians. The results of our questionnaire revealed that there is potential for further use of civilian staff:

- 13 out of 14 district commanders indicated that there was room for further use of such staff.
- over 50 per cent of detachment commanders felt that there were opportunities for more civilian staff in their own detachments.

Generally, the view of district and detachment commanders was that **increased use of civilian staff would free officers' time and result in monetary savings.** Duties cited as among those that could be done by civilians included statistical gathering and analysis, and court officers' duties. There were approximately 110 full-time court officers and a number of part-time court officers. Their duties include setting court dates, maintaining trial records, reviewing crown briefs, and finalizing reports after court.

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*QUARTERMASTER STORES*

**Overview**

The Quartermaster Stores Branch is responsible for the acquisition and distribution of weapons, supplies and clothing used by the Force. Branch facilities included a general storage area and a separate security area for weapons.

For items which the OPP felt were valuable or susceptible to theft, a manual perpetual inventory system was maintained. An inventory control card was manually updated to reflect all purchases and issues. The Branch maintained records for approximately 200 items. As of October 1989, these items had a total value of $2.6 million.

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**Good Purchasing and Stock Control Procedures**

**Controls over the purchase and issue of inventory operated well.** The Ministry adhered to its policy of requesting competitive bids, or requesting tenders for larger orders.

During our 1985 audit, we reported that several inventory items were greatly overstocked. We noted that none of these items had been re-purchased. **Since our last audit, inventory levels had been reduced and were properly controlled.**

## Solicitor General
## Ontario Provincial Police Operations

### Improved Security over Weapons

Our 1985 review noted several deficiencies in weapons security including broken or open windows, no alarm system, no armed personnel, an open weapons vault, unrestricted access to the weapons cage, and poor sign-out procedures for weapon repair.

**We found that security was greatly improved.** At the time of our audit access to all storage areas was controlled by security personnel. The weapons storage vault was locked at all times unless occupied, and a motion detector system had been installed in the vault as well as in the area which housed guns marked for destruction. A computer had recently been acquired to assist in weapons control, providing a facility to quickly track the location of any Force weapon.

*OTHER MATTER*

### Need for Stricter Enforcement to Control Speeding

Five years ago the OPP designated traffic enforcement as its top priority. Shortly thereafter the "Strict is Fair" initiative was implemented. Its main thrust was to reduce traffic accidents and fatalities through a strict enforcement of the Highway Traffic Act. One aspect of this initiative was to stress that there would be less tolerance of speeds over the posted limit.

In 1986 the Program Evaluation Branch of the OPP conducted an evaluation of the "Strict is Fair" initiative. The Branch's report emphasized that speeding was the number one cause of accidents within the OPP's jurisdiction. The report concluded that stricter enforcement of speed limits was required. In some detachments, tolerances of up to 30 kilometres/hour (km/hr) over the legal limit were being practised.

The most recent accident statistics from the Ministry of Transportation also indicated that driving too fast for conditions was the most frequently cited driver error in fatal accidents.

We selected a sample of speeding tickets issued at ten detachments to determine if there was still an implicit speed tolerance. **The average speed over the limit for tickets issued was 26 km/hr. Virtually 100 per cent of tickets were for speeds of at least 15 km/hr over the limit.** Such ticketing practices would have no deterrent effect on those who speed up to 15 km/hr over the limit. In addition, we found wide variations in speed tolerance among the ten detachments we reviewed.

The OPP recently introduced an initiative to step up enforcement on highways with a high number of accidents. We recommended that the OPP also put guidelines in place to establish a lower tolerance for speeding and maintain a consistent practice throughout the Province.

## Comments on Ministry and Crown Agency Audits

**RESPONSE**

The Deputy Solicitor General's response dated August 20, 1990 included the following comments.

FIELD OPERATIONS

### *Selective Initial Response System Working Adequately*

*"It is pleasing to note that the Selective Initial Response system has been implemented effectively."*

### *Inadequate Summer Staffing*

*"It is acknowledged that occurrences are highest during the summer months of July, August and September and that absences due to vacations are also highest during this same period. The operating policy of Field Operations is to permit one field member out of six to be absent on vacation during this peak period. This policy has, as well, been incorporated into the Memorandum of Understanding (collective agreement) between OPP management and the Ontario Provincial Police Association (OPPA).*

*"Any change in this long standing policy would require negotiation with the OPPA. Additionally, management is aware that in fairness to our employees, reasonable opportunity for summer vacations must be provided in keeping with that afforded all other government employees.*

*"We are prepared to continue efforts at reducing summer month vacations where possible, but caution that significant reductions below the 40 per cent level may not be possible. Lastly, the concept of offering some form of incentive to encourage members to take vacations during off peak months rather than summer months, will be explored as opportunities arise."*

### *Inadequate Weekend Staffing in Some Detachments*

*"The widespread implementation of 12 hour shift schedules at the detachment level should have a beneficial impact through a more even distribution of available officers' time over each workday including weekends and holidays.*

*"The development and posting of detachment shift schedules, and the subsequent changing of individual member shift schedules to respond to changing needs on a short term basis, are subject to terms and conditions set out in the Memorandum of Understanding. Opportunities to further sharpen our ability to respond to workload demands on weekends will be pursued wherever possible."*

### *Need to Reduce Administrative Time*

More Efficient Reporting Required

*"The implementation of OMPPAC (Ontario Municipal and Provincial Police Automation Co-operation) within the OPP is the number one information technology initiative within the ministry, but depends heavily on the availability of funds which are not currently available."*

## Liquor Licence Board of Ontario

Potential for Further Use of Civilian Staff

*"The potential benefits of increased civilianization within the OPP have been recognized. In this regard, the OPP strategic planning committee appointed a civilianization review committee earlier this year. It is currently evaluating submissions from all GHQ branches regarding the possible civilianization of uniformed positions. The second phase of this committee's mandate will be to conduct a similar exercise encompassing all field locations."*

OTHER MATTER

### *Need for Stricter Enforcement to Control Speeding*

*"This particular finding appears to contradict the suggestion that there is a need to reduce time spent in court since increased enforcement will necessitate increased costs and time for both police and court officials.*

*"There are many factors affecting the enforcement of speeding. These include:*

- *The discretion of an officer to issue an Offence Notice or warning;*
- *The existing demerit point system;*
- *Posted speed limits, offence location, and highway design;*
- *The amount of fines and driver behaviour.*

*"The above factors will be considered in addressing the Provincial Auditor's recommendations."*

### 3.16 Insufficient Inspection Activity and Other Matters, Liquor Licence Board of Ontario

The Liquor Licence Board of Ontario is responsible for the administration of the Liquor Licence Act and its Regulation and for the collection of liquor licence fees.

The Board's revenue and expenditure for the 1990 fiscal year totalled approximately $427 million and $10 million respectively.

SUMMARY

SCOPE AND OBJECTIVES

We assessed the adequacy of the Board's:

- inspection activity to ensure that licensees comply with the Act and Regulation; and
- collection procedures for licence fees.

## Comments on Ministry and Crown Agency Audits

CONCLUSIONS AND FINDINGS

*INSPECTIONS*

**The Board's inspection activity was less than satisfactory to ensure compliance by licensees.**

- **Inspectors spent only 20 per cent of their time on their primary role of inspecting licensed establishments and Special Occasion Permit events.**
- **Inspections ranged from fewer than 50 a year for one inspector to over 700 a year for another. The Board had not monitored the number of inspections carried out by inspectors.**

*REVENUE COLLECTION*

**Overall, the Board's collection procedures for licence fees were adequate. However, there was potential for higher income to the Province:**

- **Between $3 million and $4 million in additional interest income could be generated annually by collecting licence fees from breweries daily instead of monthly.**
- **Over $400,000 in additional licence fees could be collected by fuller application of the liquor legislation.**

COMMENTARY

*INSPECTIONS*

**Overview**

The Board's Inspection Branch employed 45 inspectors at an average annual salary of $40,000. Their primary duties were:

- inspecting the operations of the approximately 14,000 licensed liquor establishments in Ontario; and
- inspecting Special Occasion Permit events. In the 1990 fiscal year, 130,000 Special Occasion Permits were issued.

The inspectors check that licensees are not breaking the law by serving liquor to intoxicated patrons or persons under the age of 19 years, selling illegally purchased or watered-down liquor, overcrowding their premises, etc.

In addition, the inspectors:

- review new applications for liquor licences, inspect the premises, and attend public meetings and hearings concerning these applications;
- liaise with licensees, police and municipal authorities as required.

The workload was distributed across three districts: Central, Western and Northern. The number of establishments an inspector was responsible for ranged from approximately 130 in Northern Ontario to 750 in the City of Toronto.

### Inadequate Time Spent on Inspection Activities

Until January 1990, inspectors were required to conduct mandatory inspections of licensed premises once every two years, as well as spot checks at their discretion. Subsequently, mandatory inspections were being gradually phased out in favour of more frequent spot checks.

Every month each inspector received computerized information showing the names of establishments due for mandatory inspections. Inspectors did not have any targets and established their own schedules for both mandatory inspections and spot checks. They worked out of their homes and submitted weekly timesheets to head office showing the time spent on travel, office duties, licensing, and each type of inspection.

We examined 15 inspectors' timesheets and noted that almost 60 per cent of their time was spent on office duties and travel and 20 per cent on new licences, public meetings and liaison activities. Consequently, **only 20 per cent of inspectors' time was available for their primary role of inspecting licensed premises and Special Occasion Permit events.**

Over the past two fiscal years, the following inspections have been conducted:

| | 1990 | 1989 |
|---|---|---|
| Mandatory inspections | 3,029 | 5,566 |
| Spot checks | 9,860 | 5,219 |
| Special Occasion Permit inspections | 1,190 | 917 |
| | 14,079 | 11,702 |

Assuming 200 working days a year, the 1990 total represented less than two inspections a day for each of the 45 inspectors. According to the Board, an inspection takes an average of 25 minutes. Considering that the primary duty of inspectors is inspections, we questioned whether they were properly fulfilling their role.

In an internal review in November 1988, the Inspection Branch noted that because of the inspectors' other duties very little time was left for the main function of compliance. It stressed the need to change the inspector's role.

A revised Liquor Licence Act and Regulation were in the process of being finalized. The Board informed us that when the new Act and Regulation were implemented, it would have more flexibility to reassign inspectors from licensing assignments to inspection activities.

### Significant Variations in Inspections Conducted

Our comparison of inspectors' timesheets for the 1990 fiscal year showed that **inspections ranged from fewer than 50 a year for one inspector to over 700 a year for another. In many cases, the inspectors were responsible for approximately the same number of establishments but the number of inspections performed varied significantly.** For example:

| District | Inspector | # Establishments | # Mandatory Inspections | # Spot Checks | Total Inspections |
|---|---|---|---|---|---|
| Central | A | 243 | 70 | 192 | 262 |
| Central | B | 263 | 72 | 86 | 158 |
| Western | C | 226 | 57 | 681 | 738 |
| Western | D | 289 | 45 | 57 | 102 |
| Western | E | 293 | 37 | 11 | 48 |
| Northern | F | 129 | 25 | 40 | 65 |
| Northern | G | 152 | 41 | 613 | 654 |
| Northern | H | 264 | 42 | 78 | 120 |

Also, the amount of time spent by each inspector on spot checks varied significantly. For example, one spent an average of 45 minutes on each spot check whereas another spent only five minutes.

**The Board had not sufficiently monitored the number and duration of inspections carried out by inspectors.** It was unable to provide a specific explanation for these variances although it indicated that a number of factors, such as distance and the nature and type of establishment, affected the number of inspections that could be carried out.

We were informed that management planned to computerize the Board's management information system in the fall of 1990. This should provide the information needed to monitor inspectors' work more effectively.

*REVENUE COLLECTION*

### Overview

The Board collects over $400 million in licence fees annually. During the 1990 fiscal year the Board collected the following:

| | ($ millions) |
|---|---|
| Licence fees - breweries | 376 |
| licensed establishments | 45 |
| Special Occasion Permits | 5 |
| Other | 1 |
| | 427 |

Breweries pay fees based on the beer shipped for sale or distribution in Ontario. Monthly, the breweries submit their remittances with a form detailing shipments of various types of beer and the applicable fees payable.

## Liquor Licence Board of Ontario

Licensed establishments pay fees on the purchase of beer, wine and spirits. Fees on purchases of beer are paid to the Brewers' Warehousing Company Limited and on purchases of wine and spirits to the Liquor Control Board of Ontario. Such fees are remitted to the Liquor Licence Board monthly by Brewers' Warehousing and weekly by the Liquor Control Board.

### Potential for Higher Interest Income

Under the provisions of the Excise Act (Canada), the Government of Canada collects excise duties from breweries on a daily or weekly basis depending on the volume of beer produced by the breweries. The Act requires larger breweries to pay the duties daily and smaller breweries to pay weekly. Penalties and interest are imposed on breweries submitting late payments.

There are approximately 30 breweries in Ontario. Ontario's Liquor Licence Act and Regulation do not specify how frequently licence fees should be paid by these breweries. Generally, the breweries pay the fees on or around the tenth day following the end of each month.

The amounts collected are large. For example, during the 1990 fiscal year, the Board collected $350 million in licence fees from Ontario's three largest breweries. This represented over 80 per cent of the Board's total revenues for the 1990 fiscal year and over twice the amount of excise duties collected by the Government of Canada. **Collecting licence fees daily from Ontario's three largest breweries would generate from $3 million to $4 million in additional interest income for the Province.**

The Board's senior management agreed that a collection system similar to that used by the Government of Canada could be easily implemented. The Board also informed us that this matter was under review with the Ministry of Treasury and Economics and indicated that it needed legislative changes before it could institute a new system of collection.

### Liquor Licence Regulation Not Fully Applied

Our review of the Liquor Licence Act and Regulation, and discussions with the Board's senior legal counsel, confirmed that **the Board had not been fully applying certain provisions of the legislation. Conservatively, the Board has been losing over $400,000 annually in licence fee revenue.**

- Legislation specifies that licence fees are to be paid on all beer shipped for sale or distribution in Ontario. We noted that breweries had never paid any fees on beer distributed to their lounges or staff cafeterias. We estimated that, for the 1990 fiscal year, the Board had foregone over $300,000 in revenue.

  As a result of our audit, the Board instructed all breweries that fees were to be paid on beer consumed in-plant. Breweries were instructed that these fees were payable on beer consumed since April 1, 1989 and were due by August 31, 1990.

- Another provision of the legislation requires licence fees on shipments to duty free sales outlets to be calculated on a sale price based on "the brewer's price of beer for home consumption." However, breweries had always calculated the fees using a lower selling price they charged to duty free outlets. We estimated that in the 1990 fiscal year this error had cost the Board over $100,000 in lost revenues.

RESPONSE

The August 24, 1990 response from the Chair, Liquor Licence Board of Ontario, included the following comments.

GENERAL

*"The Board has taken and is continuing to put in place a number of significant changes which will improve the effectiveness and efficiency of the Board including the inspections function."*

*"All of [these] initiatives were launched prior to 1990 and will be fully implemented by late 1990. This change in direction is part of an overall strategy to improve and modernize the operations of the LLBO."*

INSPECTIONS

### *Inadequate Time Spent on Inspection Activities*

*"The Audit Report fails to recognize the broad role played by a Liquor Licence Board inspector. The inspector plays an important role in the issuance of licences.*

*"In addition, the Report implies that travel and office work are either unproductive or unnecessary which, of course, is inaccurate when dealing with a field operation. Further, the Report fails to recognize that liaison meetings, complaint investigations and proper documentation are important components of the compliance role of the inspector.*

*"The current Liquor Licence Act and Regulations are complex and require a significant amount of work in the field to process and issue a liquor licence. The liquor inspector spends a significant amount of office time and travel (paper work, phone calls, liaison with local officials, etc.) regarding new licence applications and changes to existing licences. All new applications require at least two on-site visits by the local inspector to ensure that the premises are in compliance with the Act and Regulations before the licence is issued by the Board. Ensuring that new establishments comply with the legislation is as significant a role as subsequent compliance inspections.*

*"In addition, the local liquor inspector plays a very important role in the regions as a liaison person between the Board and the local police, municipal, fire, health, building officials and citizens. These activities are an effective means of ensuring that licensed establishments comply with the legislation. LLBO inspections rely heavily upon law enforcement agencies to monitor and identify problem establishments.*

## Liquor Licence Board of Ontario

*"The following table depicts the full range of activities performed by an inspector.*

| Activity | Fiscal Year 1988/1989 | 1989/1990 |
|---|---|---|
| *Spot Inspections* | *5219* | *9860* |
| *Mandatory Inspections* | *5566* | *3029* |
| *SOP Inspections* | *917* | *1190* |
| *Transfers* | *1168* | *816* |
| *Verification/New Licences* | *2818* | *2044* |
| *New Establishment/Final Reports* | *1388* | *1177* |
| *Existing Establishment/Final Reports* | *1181* | *904* |
| *Complaint Investigations* | *2180* | *1649* |
| *Assist Police* | *306* | *300* |
| *Correspondence Delivery (eg. service of disciplinary notices)* | *5556* | *3825* |
| *Licencee Liaison* | *5058* | *3874* |
| *Attendance at Hearings/Public Meetings* | *501* | *407* |
| *Police Liaison* | *1948* | *2414* |
| *Municipal Agency Liaison* | *981* | *754* |
| *Phone Calls* | *60270* | *54810* |
| *Liquor Disposal* | *4147* | *3624* |
| *Other* | *7814* | *7846* |
| *TOTAL* | *107,018* | *98,523* |

*"The Board has recommended to the Government a more streamlined and simplified Liquor Licence Act and Regulations. When the new Act and Regulations are implemented, the Board will have the flexibility to reassign inspectors from some licensing type of assignments to other types of inspection activities including spot inspections and special occasion permit inspections. For example, verification inspections and liquor disposal activities will be eliminated. Some reassignment of inspection workload was already in place at the time of the Audit and is evident in a 20% increase in inspections in fiscal year ending 1989/90. Spot checks, which concentrate upon problem prone establishments, have increased by over 85%."*

### *Significant Variations in Inspections Conducted*

*"The variations in amount of time spent by inspectors on inspections is not in our view material. Mandatory inspections and spot checks do not accurately capture all the compliance functions of the inspectors which include licencee liaison, police liaison, complaint investigations. Furthermore, the number of inspections will not necessarily correspond with the number of establishments. Since January 1990, mandatory inspections were dropped and spot inspections increased. Spot inspections are now more a function of the number of problem establishments in an area rather than the total number of establishments. For example, the audit found only one isolated case out of 45 where an inspector was found to be spending a significantly below average amount of time on spot calls. That inspector spent a disproportionate amount of time on license liaison activities.*

*"The Board has reviewed the specific cases cited where significant variances were noted. Our explanation is as follows:*

*Inspector 'E' - This inspector completed 48 inspections. However, this same inspector completed over 400 "Licencee Liaison" activities which is 3 - 4 times the average of other inspectors in this same area.*

*Inspector 'B' - This inspector completed 158 inspections compared to 262 inspections completed by inspector 'A' in the same central region. Inspector 'B' spends a significant amount of time on union-related activities.*

*Inspector 'F' - This inspector completed 65 inspections. However, a significant factor resulting in the low number of inspections is the long term illness (approximately 60 days) and vacation (25 days) taken by this inspector. Neither inspector 'G' or 'H' were absent due to sickness during this same time period.*

*"The variation in the number of inspections conducted per inspector is a result of a number of other factors. The most significant reason is that all inspectors have other duties to perform that often take priority over spot checks. These other activities include new licence applications, transfers, complaint investigations, etc. as outlined in the previous table. The level of activity related to these other duties can vary significantly from one part of the province to another or even within a major city. Geographic distances, size and type of establishments, effectiveness of local police and level of economic activity in a region all impact the need for inspections at any given time.*

*"The amount of time spent on spot checks averages 25 minutes per inspection. In some cases, a spot inspection can take 5 to 10 minutes. The time required depends upon the number of patrons, cooperation of staff and the presence or absence of any infractions.*

*"The Board has reviewed and is in the process of adjusting the allocation of inspectors to ensure optimum coverage of all areas of the province taking into account all of the above factors.*

*"The Board's ability to monitor inspectors will improve with the streamlining of the legislation and the implementation of the new computer system."*

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REVENUE COLLECTION

### *Potential for Higher Interest Income*

*"The LLBO agrees in principle that fees should be collected as early as possible to maximize the revenues to the Province. Acceleration of our collections to a more frequent basis can be accommodated administratively. However, the government is currently engaged in a major review of the competitiveness of the brewery industry and any adjustment of the provincial fee structure or the frequency of revenue collection should be analyzed in this broader context. This proposal is now under consideration as part of the review of the brewery industry."*

## Office of the Assembly

### *Liquor Licence Regulation Not Fully Applied*

*"Upon review of the fee provisions, the Board agreed that beer consumed in the brewery plants should be considered beer 'distributed' in Ontario and therefore, subject to the fees set out in clauses 68(1)(b) and (c) of the Liquor Licence Act Regulations. The Board has recently informed all manufacturers of beer that the fees are to be paid on all beer consumed in-plant under a hospitality lounge licence. They were instructed that this interpretation applied to beer consumed since April 1, 1989 and that all appropriate fees owing from that date were due by the end of August 1990.*

*"The Liquor Licence Board has correctly interpreted the legislation regarding fees on shipments to duty-free sales outlets, however, the selling prices are determined by the Liquor Control Board.*

*"The basis for calculating licence fees on shipments to duty free sales outlets is under review with the LCBO. The amount in question has been calculated at less than 3 cents a bottle."*

### 3.17 Opportunities for Travel Cost Savings, Office of the Assembly

The Office of the Assembly was established by the Province of Ontario in December 1974, to provide administrative services to the Legislature and its members.

The 1989 fiscal year expenditures for members' travel and accommodation (Vote 201, Item 4) were $2.2 million. Of this amount approximately $800,000 pertained to members' vehicle travel.

#### SUMMARY

#### SCOPE AND OBJECTIVE

Our audit objective was to assess whether travel and accommodation expenses incurred by MPPs and committees were in accordance with entitlements or established policies.

#### CONCLUSION AND FINDINGS

**In general, there was adequate support for travel and accommodation expenses of MPPs and committees, and expenses claimed were in accordance with entitlements or policies. However, more economical alternatives could have been used for members' vehicle travel.**

#### COMMENTARY

#### Overview

All MPPs are entitled to be reimbursed for the costs of travelling within their constituencies and also to and from the Legislative Assembly in Toronto. Other than for air travel, there is no limit to the amount of travel MPPs are permitted and they are not required to disclose the details of their travel itineraries.

Effective November 1, 1989, the rate of reimbursement for the use of personal cars was 29 cents per kilometre in Southern Ontario and 29.5 cents in Northern Ontario. By comparison, the Ontario Public Service rates were the same for the first 4,000 kilometres, but decreased in increments so that after 24,000 kilometres the rates were 17.5 cents in Southern Ontario and 18 cents in Northern Ontario.

**Possible Economies in Travel Costs of MPPs**

Using the November 1989 rates and the total kilometres claimed in the year ended March 31, 1989, we calculated that over $200,000 could be saved annually by using the Ontario Public Service rates to reimburse members.

An examination of travel claims indicated that 13 MPPs had each travelled more than 50,000 kilometres during the 1989 fiscal year. One member's claims totalled almost 80,000 kilometres. Using the Southern Ontario rate of 29 cents per kilometre, the cost of automobile travel for these MPPs would have ranged from $14,500 to $23,000. The comparable figures using the Ontario Public Service rates would have ranged from $10,000 to $15,000.

Given the high rate of reimbursement and the extensive use of personal cars, it would be more economical for the MPPs to lease cars and pay for the gasoline, insurance and routine maintenance through corporate credit cards. According to the Fleet Management Council of Ontario, **when automobile travel exceeds 19,000 kilometres per year it is more economical to lease or purchase a vehicle than to reimburse for personal car use, even at the graduated Ontario Public Service rates**. In the 1989 fiscal year 74 MPPs exceeded 19,000 kilometres.

We recommended that the Board of Internal Economy consider options for funding MPPs travel costs in the most economical manner.

**RESPONSE**

The Controller of the Office of the Assembly responded to our report on January 9, 1990.

*"As you know, the Board recently approved a revised rate schedule for mileage. Your suggestions for leasing cars will be referred to the Finance Branch for them to prepare a proposal for the Board."*

# Ontario Cancer Treatment and Research Foundation

## 3.18 Overseas Recruitment Expenditure, Ontario Cancer Treatment and Research Foundation

The object of the Foundation as stated in the Cancer Act is to establish and conduct a program of research, diagnosis and treatment in cancer. The Foundation delivers patient services through the operations of its eight cancer treatment centres.

For the 1990 fiscal year, revenue and expenditure of the Foundation amounted to approximately $105 million and $100 million, respectively.

### SUMMARY

#### SCOPE AND OBJECTIVE

During the 1990 fiscal year, a $1.1 million program was initiated to recruit Radiation Therapy Technologists from various countries. The program was to be carried out in three phases. Our comments relate only to expenditures incurred for Phase I. At the time of our audit complete information for Phase II was not available and Phase III had not taken place.

We assessed the reasonableness of recruitment expenditures and their compliance with established policies.

#### CONCLUSION AND FINDINGS

*TRAVEL, ACCOMMODATION AND OTHER COSTS*

**Much of the expenditure incurred was excessive and some expenses were questionable.**

*ADVERTISING AND PROMOTIONAL SERVICES*

**Contrary to Foundation policy, a competitive selection process was not followed in acquiring advertising and promotional services costing $487,000.**

### BACKGROUND

In October 1989, in response to growing waiting lists for radiation therapy treatment, the Ministry of Health approved $1.1 million for the operation of the International Radiotherapeutic Technologist Recruitment Program (IRTRP).

The objective of the Program was to recruit all Radiation Therapy Technologists (RTTs) necessary for the efficient and effective operation of the Foundation's cancer treatment centres and the Princess Margaret Hospital. The initial target of the Program was 75 to 125 qualified RTTs.

The Ministry advanced $672,000 in March 1990 and the remaining $400,000 in June 1990. The budget for the Program was as follows:

| | $ |
|---|---|
| Advertising | 487,000 |
| RTT's Travel and Accommodation | 338,000 |
| Recruitment | |
| Air travel | 80,000 |
| Accommodation | 87,000 |
| Administration | 80,000 |
| | 1,072,000 |

Countries targeted for recruitment were:

Phase I: South Africa, Zimbabwe, Malaysia/Singapore, Hong Kong
Phase II: New Zealand, Australia
Phase III: India, Holland, Ireland, Switzerland, United Kingdom

Phase I visits to South Africa, Zimbabwe and Hong Kong took place in February and March 1990. Thirty-six candidates were recruited out of 56 interviewed. Eight of the 36 recruits arrived in July and August 1990, with the remainder expected by early 1991.

Phase II occurred in June 1990 and no date had been set for Phase III.

**COMMENTARY**

*TRAVEL, ACCOMMODATION AND OTHER COSTS*

**Staffing for Phase I Trip**

The Phase I trip involved a team of eight people, including a team leader and representatives from four cancer treatment centres and the Princess Margaret Hospital. Up to three centre representatives individually interviewed each candidate.

Approximately $49,000 was spent on airline travel and $51,000 for accommodation. These expenditures were $22,000 and $16,000 respectively over the original budget.

**We questioned the need for eight people on the trip. In our opinion, the trip should have been taken by no more than three individuals, including one authorized to conduct interviews on behalf of all the centres.** We were informed by the team leader that the recruiting approach was approved by both senior management and the Ministry.

**Air Travel**

According to the Foundation's Policy the most practical and economical means of air travel should be used. However, all staff travelled Business Class. If staff had used Chartered Economy Class, cost savings of approximately $25,000 (about half of total air travel) could have been achieved.

The team leader told us that the appropriate comparison was not with Chartered Economy Class but with Full-fare Economy Class, in which case the potential

cost savings would have been approximately $6,000. Full-fare Economy provides the flexibility that can accommodate changes in travel plans.

However, we felt that with proper planning any major changes in travel schedules could have been avoided, and that Chartered Economy Class should have been given more consideration.

### Accommodation

Recruitment in Hong Kong accounted for almost 50 per cent of the time spent overseas and over 70 per cent of the Phase I accommodation cost of $51,000. We also noted that 30 interviews were carried out during the 10 days staff were in Hong Kong. Accordingly, we concentrated on the costs incurred during this part of the trip. Our examination of the hotel bills submitted by staff revealed the following:

- The team leader and other staff occupied rooms costing $460 and $275 Canadian per night, respectively. The hotel informed us that the cost of a suite similar in size to that of the team leader, but without a view of the harbour, was $300 Canadian per night. The hotel also told us that the rooms occupied by other Foundation staff were deluxe double-rooms with a harbour view. Single accommodation ranged from $170 to $260 Canadian per night and a double room similar in size to that occupied by Foundation staff, but without a harbour view, was $200 Canadian per night. **We estimated that savings of over $7,000 could have been achieved if less expensive accommodations had been used.**

- **Personal long distance calls totalling over $1,100 Canadian were charged by six staff.**

- No documentation was provided for an expenditure of $460 Canadian.

- **Several instances were noted of restaurant/bar bills ranging from $150 to as high as $400 Canadian. Due to a lack of proper documentation we were unable to determine the reasons for these expenses.** In addition, two staff billed for beauty salon services totalling $175 Canadian. The team leader stated that these services should not have been charged to the Program.

A cash advance of $5,000 for incidentals was made to the team leader prior to the trip. After the trip the leader submitted a cost report accounting for expenditures totalling $4,700. However, no invoices or documentation were submitted to prove the validity of the expenses. We felt that procedures should have been in place requiring each person to account for expenditures and obtain receipts wherever possible.

### Other Costs

**On the return trip, three canvas type bags costing $800 Canadian were purchased in California and charged to the trip. The team leader**

**informed us that the bags were purchased to transport the resumés of candidates and promotional material from the trip.** We contacted a luggage store in Toronto and were told that the bags were expensive because of their exclusive nature, and that bags of a similar quality could be purchased for half the price. **We questioned the need to purchase such expensive luggage.**

**Car rental expenditure of almost $1,800, for travel by the team leader in Canada,** was charged to the Program. The team leader explained that this was part of his compensation package at the treatment centre where he previously worked and **should not have been charged to the Program.**

**Monitoring of Costs**

We were informed by the team leader that the responsibility for monitoring Program expenditures was that of the Interim Chief Operating Officer. However, the Officer was no longer involved with the day-to-day operations of the Foundation when most of the cost details were received. Therefore, **for Phase I, reviews of expenditures were not performed.**

*ADVERTISING AND PROMOTIONAL SERVICES*

**Contrary to Foundation policy, an advertising firm was retained without a competitive selection process.** The firm was to place advertisements in newspapers and journals in countries where the recruiting team planned to visit, and to provide other services for the recruitment campaign. **The advertising budget of approximately $487,000 was established by the firm and reviewed by the team leader. The terms of the engagement were outlined in a letter of understanding but no formal contract was signed.**

We were told by the team leader that, due to the urgency of the situation, it was not possible to have a formal competitive selection process nor to obtain oral quotes from various firms. Further, he stated that the decision to bypass the competitive selection process was approved by the then Interim Chief Operating Officer.

**RESPONSE**

The response from the Chairman, dated September 12, 1990, included the following comments.

GENERAL

*"Both points under 'Conclusions and Findings' are overstated. We have provided the Provincial Auditors with explanations as to the urgency of the project and the image we were trying to portray to our potential recruits."*

TRAVEL, ACCOMMODATION AND OTHER COSTS

***Staffing for Phase I Trip***

*"The IRTRP was intended to serve the needs of two organizations with different*

*corporate structures and cultures. It was agreed that the program would be designed to balance the economies of a centralized versus decentralized approach to recruitment. The recruitment program was budgeted and approved accordingly.*

*"Each candidate selected for interview was requested to have individual interviews with up to three centre representatives, and an immigration interview with the Human Resources Specialist. This approach was taken to allow the candidate to choose the location he/she wanted to apply for and to allow for an assessment of the 'chemistry' between the candidate and the individual he/she would eventually be working with. The budget for airline travel was allocated to the three phases on a 'straight line basis'. We are projecting that the entire project will be approximately $100,000 under the approved budget."*

---

**Air Travel**

*"According to the Foundation's Financial Policies 'the most practical and economical means should be used as determined by the approving authority'. The approving authority considered this to be Business Class and was budgeted accordingly. This class of travel for trips of this length is generally accepted practice in the health care industry. Due to the urgency of making immediate plans, the upcoming holiday season and familial commitments, the travel plans were changed twice before the project got underway. In addition, modifications were made to the itinerary while the trip was in progress. If Chartered/Economy Class had been used no changes would have been allowed without significant penalty. The comfort of the recruiters was also a consideration, given the distance being travelled in three weeks."*

---

**Accommodation**

*"Four out of the ten days which were spent in Hong Kong were weekends. Very few candidates were interviewed during the weekends due to inability to schedule interviews for these days.*

*"The team leader's room doubled as a reception/meeting/interview room during the week days. The team leader occupied a room comparable to that of other team members during the weekends. The recruiters' rooms doubled as interview rooms during the week. The single accommodation was considered to be too small to facilitate interviewing and was therefore deemed inappropriate. Additionally, at the time the reservations were finally made, having been cancelled twice previously, it was our information that the hotel was fully occupied and there were no more economical accommodations available.*

*"A portion of the $1,100 in telephone charges identified as personal were in fact business related calls.*

*"An expenditure of $460 Canadian was for [special food needs] supplied to one of the team members for the 10 days while in Hong Kong. [This] food is difficult to obtain in Hong Kong and special arrangements had to be made. At your request we have agreed to have the nature of this expenditure confirmed by the supplier.*

*"There was only <u>one</u> instance where a restaurant bill was as high as $400 Canadian and this was for dinner for six members of the project team.*

*"Two staff billed for beauty salon service totalling $175 Canadian. This has been recovered from the staff in question.*

*"A cash advance of $5,000 was made to cover the cost of incidentals over the three weeks. This was spent on items where you would not normally expect receipts eg. tips, airport fees, items of a minimal dollar value etc. The unspent portion was returned to the Foundation and an expense summary submitted upon return from Phase I. We are in the process of implementing a procedure which will allow us to better monitor this type of expenditure in the future."*

### *Other Costs*

*"Three canvas type bags costing over $800 Canadian were purchased to transport resumes of candidates and promotional material for the recruiting effort. These bags are made of durable canvas of a weight deemed necessary to carry the materials for two more phases of the campaign. The previous containers had broken, causing some embarrassment to the carrier. These bags are available for the future benefit of the Foundation. Recognizing the long term nature of this purchase, we will allocate only $100.00 of the total expenditure to the IRTRP.*

*"Car rental expenditures of almost $1,800 for travel by the team leader in Ontario [and Quebec] had been charged to the recruitment campaign in error. These have now been transferred to the appropriate cost centre."*

### *Monitoring of Costs*

*"The responsibility for monitoring project expenditures against the budget which had been previously approved by the Interim Chief Operating Officer and the Ministry of Health was that of the Team Leader."*

### ADVERTISING AND PROMOTIONAL SERVICES

*"The Foundation policy with regard to tendering is that 3 written quotes must be obtained for any purchase over $2,000. This policy is clearly out-dated and requires revision. It was considered by the Senior Management of the Foundation that, due to the significant shortage of RTTs, and time being of the essence, that the tendering process would hamper our ability to complete the project on schedule. The supplier chosen was one which had been recommended by an affiliated Health Sciences Centre and one with which we had prior success in recruitment activities of a similar nature.*

*"The total advertising budget was $488,000 of which in excess of $350,000 was spent on direct newspaper and journal advertising. The advertising firm had no control over direct newspaper and journal advertising decisions. The overall advertising budget was compiled by the Team Leader and reviewed and agreed to by representatives of the Human Resources department at [Princess Margaret Hospital] PMH prior to submission to the Interim Chief Operating Officer and the Ministry of Health for approval."*

## The Public Trustee of the Province of Ontario

CONCLUDING REMARKS

*"The International Radiotherapeutic Technologists' Recruitment Programme represents a cooperative effort between [Ontario Cancer Treatment and Research Foundation] OCTRF and PMH in addressing a significant manpower shortage which threatened to cripple the cancer care system in the province. We achieved our recruiting target at an expenditure level below that which was approved by the Ministry of Health. We consider the program to have been a successful initiative."*

### 3.19 Inadequate Safeguarding of Valuables, The Public Trustee of the Province of Ontario

The office of the Public Trustee is responsible primarily for administering the estates and trusts of mentally incompetent individuals. As of March 31, 1990 it administered over 20,000 estates and trusts having assets valued at $495 million. Each year the office staff, which numbered 175 in 1990, processes an estimated one million financial transactions for these estates and trusts.

SUMMARY

OBSERVATIONS

**During our current year's audit we noted that:**

- **Access to valuables in safekeeping was not adequately restricted and there were other control weaknesses in the safeguarding of these valuables.**
- **Valuables held in trust were missing. Police were investigating.**

COMMENTARY

**Weaknesses Noted in the Safeguarding of Valuables**

As at March 31, 1990, the office of the Public Trustee was responsible for the safekeeping of approximately $275,000 worth of gold bars, coins, currency and jewellery belonging to its clients.

In our report for the 1988 fiscal year, we expressed concern that there were too many custodians (14 employees at the time) with access to valuables. These custodians were also responsible for maintaining accounting records.

**During our current audit, we noted that about 20 employees had access to valuables. We also noted several other control weaknesses.** For example:

- Record keeping was inadequate. Computerized client records and manual ledger cards had never been reconciled. Also, the cards did not identify vault and cabinet locations of items and many of the cards were missing, both during our count and during a follow-up count by the Public Trustee's office.
- Locks and combinations to the vaults and safes had not been changed since May 1989.
- Vaults were left open after normal business hours.

Between April and June 1990, the Public Trustee's Internal Auditor and Chief Accountant conducted special reviews. They made several recommendations to improve the safeguarding of valuables.

At the conclusion of our audit, the Public Trustee's office had implemented some of the recommendations. It was considering other corrective measures to ensure valuables will be properly safeguarded in the future.

**Disappearance of Valuables**

In early April 1990, we examined a sample of items valued at approximately $55,000. **We noted that items worth over $17,000 were missing.**

As a result, in May and June the Public Trustee's office conducted a complete count of all valuables. **Items belonging to 22 clients, and having a value of approximately $40,000, could not be located.**

**In July 1990, the Public Trustee's office informed the Ontario Provincial Police and reimbursed the 22 clients $40,000 for the missing items. An OPP investigation was under way at the conclusion of our audit.**

**RESPONSE**

The foregoing comments were included in a report dated August 29, 1990. As of the reporting deadline (September 14, 1990), no response had been received from the Public Trustee.

**3.20 Newly Established, Reactivated, Terminated and Inactive Crown Agencies**

During the 1990 fiscal year no new agencies of the Crown or Crown controlled corporations were established. However, the status of seven agencies changed during the year.

*CHANGES IN DESIGNATION OF AGENCIES*

Revised agency legislation passed during the 1990 fiscal year included provisions which resulted in agencies of the Crown being redesignated as Crown controlled corporations, as defined in the Audit Act.

*McMichael Canadian Collection to McMichael Canadian Art Collection*

The McMichael Canadian Art Collection Act, 1989, which received Royal Assent on July 13, 1989, requires the financial statements of the McMichael Canadian Art Collection to be audited annually by an auditor appointed by the Board of Trustees.

*Public Service Superannuation Fund to Public Service Pension Board*

The Public Service Pension Act, 1989 was passed on December 18, 1989 and came into force on December 31, 1989. The Act provides for the continuation of the Public Service Superannuation Commission (administrator of the Fund) as the Public Service Pension Board which is constituted as a corporation without share capital.

## Newly Established, Reactivated, Terminated and Inactive Crown Agencies

*Teachers' Superannuation Fund to Ontario Teachers' Pension Plan Board*

The Teachers' Pension Act, 1989 was passed on December 20, 1989 and came into force on December 31, 1989. The Act provides for the continuation of the Teachers' Superannuation Commission (administrator of the Fund) as the Ontario Teachers Pension Plan Board which is constituted as a corporation without share capital.

Under the Pension Benefits Act, 1987, annual audits of the pension funds will be performed by auditors appointed by the respective pension boards.

In addition, the following are no longer agencies of the Crown.

*Star Transfer Limited*
*The Owen Sound Transportation Company Limited*

In the past the Provincial Auditor had been appointed to audit these subsidiaries of the Ontario Northland Transportation Commission.

As the Provincial Auditor audits the consolidated financial statements of the Commission which includes the accounts of these subsidiaries, the Commission no longer considers separate audits to be necessary.

*REACTIVATED AGENCY*

*North Pickering Development Corporation*

The Corporation has been inactive since the 1980 fiscal year. On November 29, 1989 Cabinet approved a request from the Ministry of Housing to reactivate the Corporation for the purpose of planning and constructing the proposed Town of Seaton. The Corporation is expected to become operational during the 1991 fiscal year.

*TERMINATED AGENCY*

*Ontario Centre for Advanced Manufacturing*

In accordance with a January 1988 Government directive, the Crown controlled corporation was privatized, with a portion of its assets being transferred to a private corporation during 1989. The Corporation was dissolved effective December 31, 1989 and all the remaining assets, rights, obligations and liabilities were transferred to the Province.

*INACTIVE AGENCIES*

As at March 31, 1990 there were five inactive Crown agencies.

*Agencies of the Crown*

The John Graves Simcoe Memorial Foundation
Ontario Deposit Insurance Corporation
Ontario Land Corporation
Ontario Pavilion Expo '86

*Crown Controlled Corporation*

Ontario Van Pool Organization Limited

CHAPTER

# 4

# PUBLIC ACCOUNTS OF THE PROVINCE

# CHAPTER 4
# PUBLIC ACCOUNTS OF THE PROVINCE

## 4.1 Preparation of the Public Accounts

In accordance with the Ministry of Treasury and Economics Act, the three volumes of the Public Accounts are prepared under the direction of the Treasurer. They are delivered to the Lieutenant Governor in Council and are laid before the Assembly not later than the tenth day of the first session held in the following calendar year.

The audit of the Public Accounts consists of an examination of the financial statements of the Province on which the Provincial Auditor expresses an opinion, and a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

(a) in which the Province has an investment, or
(b) which have borrowed from the Province, or
(c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies, which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments. The expenditures are shown under two main categories: Voted Appropriations and Statutory Appropriations. Although the Office does not express an opinion on Volume 3, the information contained therein is reviewed and any relevant comments would be included in this Chapter of our Annual Report.

## 4.2 Financial Statements of the Province

The audited financial statements of the Province for the year ended March 31, 1990 are reproduced in the Province's Financial Report and in the Public Accounts, Volume 1. The financial statements and notes disclose, in summary form, the financial activities of the Province for the fiscal year. They also report on the significant aspects of the Province's financial position at the close of the fiscal year.

An integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on pages 1-2 and 1-3 of Volume 1 of the 1989-90 Public Accounts. Such a Summary is included in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of Government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by profit-oriented enterprises and those followed by Government.

As covered in the Summary of Significant Accounting Policies in the Public Accounts, Ontario's financial statements are designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. Accordingly, the financial transactions of the Government are set out as Consolidated

Revenue Fund cash inflows and outflows. In the case of cash outflows, this basis is modified to allow for an additional 30 days to pay for obligations incurred during the fiscal year just ended.

The Office of the Treasury, responsible for financial statement preparation, maintains that the present cash basis of accounting is precise, well-understood and is no less informative than the accrual basis of accounting. The method used is appropriate to the needs of its two primary user groups, legislators and the general public.

The Office of the Provincial Auditor fully supports this position.

## 4.3 Provincial Auditor's Opinion

Under the Audit Act, the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts. Furthermore, this opinion states whether these policies have been applied consistently with those of the preceding year.

The Provincial Auditor's opinion is stated as follows:

I have examined the statement of financial position of the Province of Ontario as at March 31, 1990 and the statements of financial transactions, revenue, expenditure, financing, and loans and investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, these Policies have been applied on a basis consistent with that of the preceding year.

With respect to the terms "in my opinion" and "present fairly" in the preceding paragraph, my examination was carried out to provide me with a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than $80 million.

D.F. Archer

Toronto, Ontario.
July 20, 1990.

D.F. Archer, F.C.A.,
Provincial Auditor.

# Advance Payments Affecting the Deficit

**4.4**
**Advance Payment of Expenditure - Its Effect on the Deficit**

## 1989 Fiscal Year

In Section 4.4 of our 1989 Report, we commented on the advance payment of grants totalling $823 million to municipalities, school boards, universities and community colleges. These grants, which normally would have been paid in the 1990 fiscal year, were preflowed to recipients and charged to expenditure for the year ended March 31, 1989.

These advance payments, while authorized by Supplementary Estimates and Management Board Orders, were not included in the Budget for that year.

The following is a comparison of the budgeted deficit, the reported deficit and what the deficit would have been assuming there had been no unbudgeted preflows.

| | $ millions | |
|---|---|---|
| | Deficit | Variation from Budget |
| Budgeted | 1,544 | – |
| Reported | 1,479 | (65) |
| If no unbudgeted preflows | 656 | (888) |

## 1990 Fiscal Year

Capital grants to school boards, universities and community colleges ($410 million) were again preflowed. However, prepayments of unconditional grants to municipalities ($413 million) were not. The effects of both the continued and discontinued preflows were included in the 1990 fiscal year Budget and, therefore, neither would impact the comparison of budgeted and actual results.

However, two unbudgeted preflows, totalling $474 million, were also made in the current fiscal year. Operating grants to hospitals ($334 million) and unfunded liability payments to the Ontario Teachers' Pension Fund ($140 million) which normally would have been paid in the 1991 fiscal year were advanced in the current (1990) fiscal year.

Similar to the previous year's preflows, these advance payments, although authorized, did affect the actual to budget comparison.

The following is a comparison of the budgeted deficit, the reported surplus and what the surplus would have been assuming there had been no unbudgeted preflows.

| | $ millions | |
|---|---|---|
| | Deficit/(Surplus) | Variation from Budget |
| Budgeted | 577 | – |
| Reported | (90) | (667) |
| If no unbudgeted preflows | (564) | (1,141) |

### Accountability for Budget

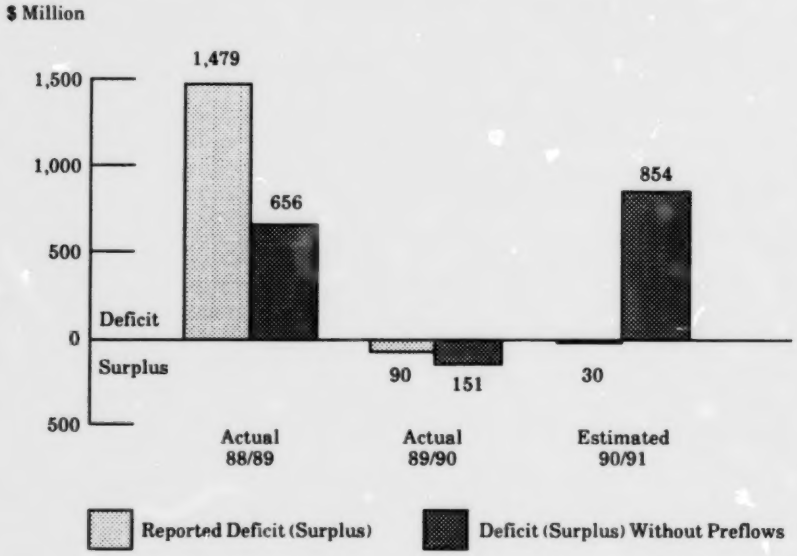
The effect of the Government's recent practice of unbudgeted advance payments has been to shift expenditures forward into years for which they were not planned, thus affecting the comparability of budgeted plan to actual results, an important accountability measure of the Government.

When such advance payments are not budgeted and are announced in the latter part of fiscal years, there is a perception that the Government is, in reality, managing and adjusting its actual results so they will more closely parallel its budgeted results. This, in turn, raises doubts concerning the integrity of the accounting process.

### Irregular Preflows

At March 31, 1990 the accumulated total of budgeted and unbudgeted preflows was $884 million. These preflows have been effectively reversed in 1991 as no provision was made in the Budget for any preflows.

Irregular preflows, both budgeted and unbudgeted, can be viewed as an attempt to "manage" operating results. The following graph shows a comparison of reported operating results (deficit/surplus) with what they would have been in the absence of expenditure preflows in 1989 and 1990. It also depicts the reversing effect of previous preflows on the 1991 Budget.




Questions concerning the intent of preflows have been raised in the Legislature in both 1989 and 1990. Media comment has also been evident. In order to allay any doubts concerning the integrity of the accounting process, we recommend that the Government consider excluding any future preflows from expenditures and treating them instead as advances to be reported as financial assets at the fiscal year end. These assets could then be appropriately converted to expenditure in the succeeding year.

# The Consolidated Revenue Fund

**4.5 The Consolidated Revenue Fund - Authorized and Actual Payments**

## Authorized Payments

In our parliamentary system of government all public monies received are deposited in a single fund, the Consolidated Revenue Fund. The pooled monies of the Fund are only made available for expenditure by specific approval and appropriation by the Legislative Assembly. Thus the payments out of the Consolidated Revenue Fund are made pursuant to the following approval mechanisms.

### *Voted Appropriations*

Estimates and Supplementary Estimates are formalized annually as Voted Appropriations when the Legislature approves the Supply Act.

When the Legislature is in session, motions of interim supply adopted by the Legislature authorize payments from appropriations prior to the passage of the Supply Act.

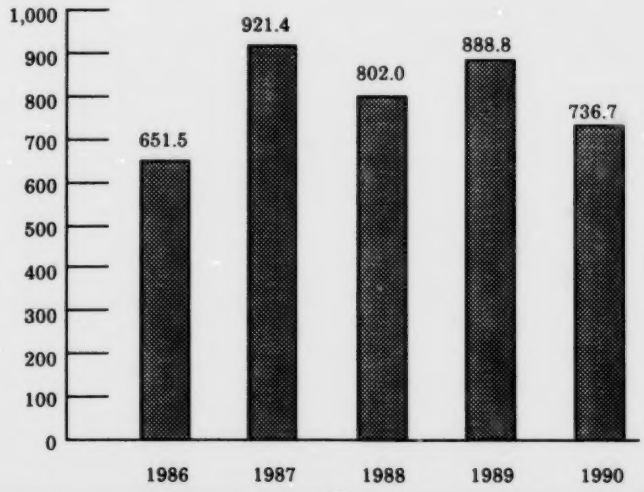
The Supply Act, 1989, covering the year ended March 31, 1990, received Royal Assent on December 20, 1989.

### *Management Board Orders*

Where a Voted Appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, Section 5 of the Management Board of Cabinet Act provides that the Board may make an order authorizing payments to be made against such amounts as it considers proper.

The following chart is a summary of the Management Board Orders issued for the past five years:

($ millions)



The Management Board Orders for the 1990 fiscal year are summarized by month of issue as follows :

| Month of Issue | Number | Authorized $ | % |
|---|---|---|---|
| August 1989 to February 1990 | 13 | 48,428,900 | 6.6 |
| March 1990 | 17 | 473,178,000 | 64.2 |
| April 1990 | 34 | 215,120,900 | 29.2 |
| | 64 | 736,727,800 | 100.0 |

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in *The Ontario Gazette*, together with explanatory information.

*Special Warrants*

When the Legislature is not in session, Section 4 of the Management Board of Cabinet Act provides for the issue of a Special Warrant authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good. Special Warrants are authorized by orders in council approved by the Lieutenant Governor on the recommendation of the Government.

No Special Warrants were issued during the 1990 fiscal year.

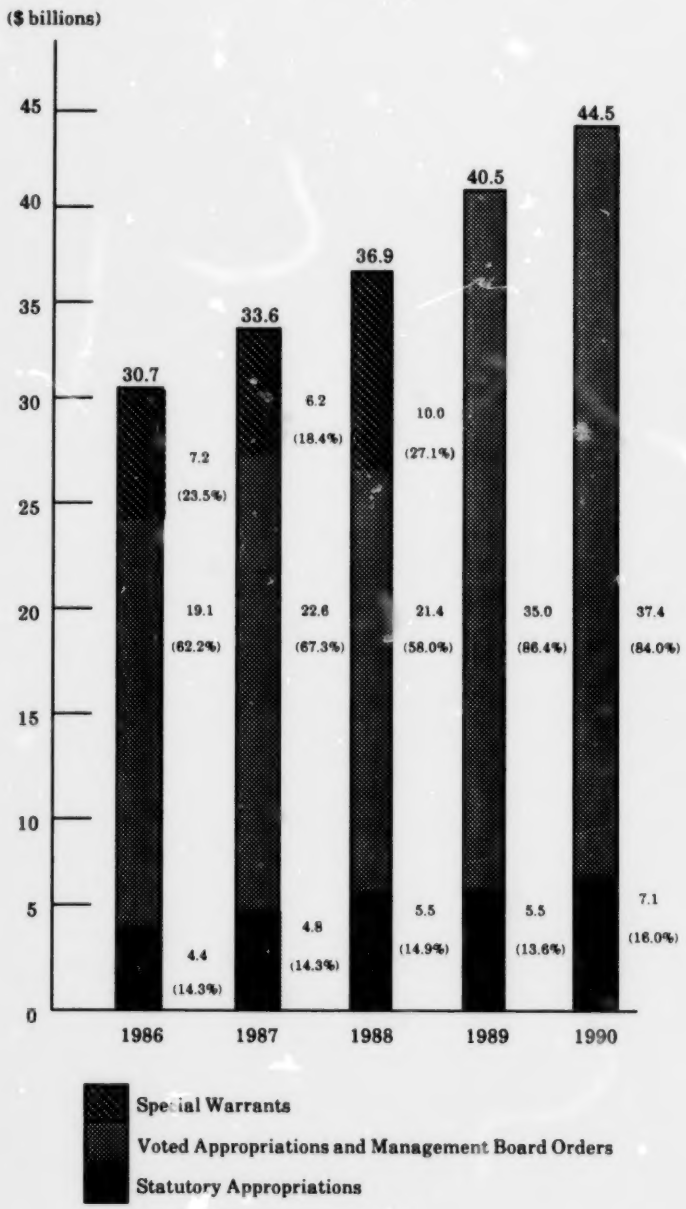
*Statutory Appropriations*

Payments from Statutory Appropriations represent those where the specific authority to spend money from the Consolidated Revenue Fund is expressly contained in a statute of the Legislature.

Once a statute is enacted by the Legislature no further specific approval of statutory expenditures is required. However, for the information of the Legislature, Statutory Appropriations are noted in the annual Estimates and represent the amount the Government estimates will be spent in accordance with the authority given in the various statutes. Unlike Voted Appropriations, Statutory Appropriations do not require Management Board Orders when spending exceeds the estimated amount.

# The Consolidated Revenue Fund

*Authorized Payments: Five-year Summary*



### Actual Payments

The following is a comparative summary (in $ billions) of payments out of the Consolidated Revenue Fund:

| | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| Voted Appropriations | | | | | |
| Estimates | 17.9 | 21.0 | 20.0 | 33.3 | 35.9 |
| Management Board Orders | .6 | .9 | .8 | .9 | .7 |
| | 18.5 | 21.9 | 20.8 | 34.2 | 36.6 |
| Statutory Appropriations | 4.4 | 4.8 | 5.5 | 5.5 | 7.1 |
| Special Warrants | 7.2 | 6.2 | 9.9 | - | - |
| Total Payments | 30.1 | 32.9 | 36.2 | 39.7 | 43.7 |

*Comparison of Authorized and Actual Expenditures*

The comparison for the fiscal year ended March 31, 1990 is as follows:

| | Authorized ($ millions) | Actual ($ millions) | Actual Under (Over) Authorized ($ millions) |
|---|---|---|---|
| Voted Appropriations | | | |
| Estimates | 36,704 | 35,929 | 775 |
| Management Board Orders | 737 | 703 | 34 |
| | 37,441 | 36,632 | 809 |

The total actual payments of $36,632 million were slightly less than the voted amount of $36,704 million authorized in the Supply Act. Ministries anticipating overexpenditure situations in their programs obtained authorization for the additional spending through Management Board Orders. As a result, expenditures were $809 million less than the total authorized.

A detailed listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

### Expenditure Controls Circumvented

As previously noted, Section 5 of the Management Board of Cabinet Act allows the Board to issue Management Board Orders to authorize payments that would otherwise cause previously approved appropriation limits to be exceeded. For the fiscal year ended March 31, 1989, we examined a sample of expenditures at six ministries for adherence to Section 5.

In five of the six ministries we noted instances where, in our opinion, the provisions of Section 5 of the Act were circumvented. Expenditures of approximately $1.8 million were not charged to the appropriations of the

activities to which the expenditures pertained. Expenditures had been inappropriately transferred from one activity to another to avoid overexpenditures of approved spending limits being disclosed in the Public Accounts.

Examples of significant inappropriate transfers are as follows:

- The Ministry of the Attorney General avoided identifying overspending by charging various expenditures to Activities other than those to which the expenditures pertained. For example, nearly $700,000 in expenditures for other Activities were misallocated to the Contingency Fund of the Administrative Services Program, Main Office Activity (Vote 302, Item 1). The purpose of the Fund was to provide for one time expenditures of an emergency nature which could not be funded from the existing allocation for a particular Activity. However, the Fund was charged with expenditures such as office furniture and supplies, computer workstations, and Official Guardian legal fees related to child protection.

  In its response the Ministry indicated that in the 1989 fiscal year it was unable to forecast the year-end position accurately until the time limit for obtaining Management Board Orders had expired.

  The Ministry was in the process of acquiring a new corporate financial system which would identify financial pressures as they occurred. The system is to be in place for the 1991 fiscal year.

- The Ministry of the Solicitor General transferred $316,000 in accountable advance payments from the Ontario Provincial Police (OPP) Field Operations Activity (Vote 3504, Item 3) to the OPP Investigations Activity (Vote 3504, Item 4).

  Initially, the payment was allocated to the proper accounts. However, this resulted in the Field Operations Activity exceeding its appropriation by $281,000. On May 12, 1989, a "correcting" journal entry was processed to transfer the entire $316,000 from Field Operations to Investigations for the 1989 fiscal year.

  The Ministry noted that there had been a historical problem in allocating and controlling expenditures across the various divisions of the OPP. Accordingly, the Ministry merged all operational funding into one Vote and Item for the 1990 fiscal year.

- At the Ministry of Natural Resources only $24,000 of a $200,000 expenditure, for the maintenance of stream gauges used solely by the Conservation Authorities and Water Management Activity, was charged to the Activity (Vote 2702, Item 1). The remaining $176,000 was allocated to the Surveys and Mapping Activity (Vote 2702, Item 6). If the entire $200,000 had been charged to Item 1, it would have been overspent by $176,000 in the 1989 fiscal year.

  Our review of similar charges for the 1990 fiscal year indicated that they were consistently charged to the Conservation Authorities and Water Management Activity.

In its response the Ministry agreed that the entire $200,000 expenditure should have been charged to the Conservation Authorities and Water Management Activity. Due to an error in coding, the Ministry was not aware of the shortfall in the appropriation and therefore could not include the required amount in the year-end submission for a Management Board Order. Subsequently the Ministry issued a memorandum to all staff reminding them of their responsibility for ensuring the proper allocation and recording of expenditures.

### Overexpenditure of Certain Appropriations

During our March 31, 1990 audit of the Public Accounts, we noted that the Ministry of Financial Institutions had failed to obtain Management Board Orders to authorize expenditures which exceeded existing spending limits (the appropriations) by $2,384,365. Five of its Activities (Vote 1601, Items 3 and 4; Vote 1602, Items 1, 2 and 4) were affected. This situation had resulted from an inadvertent error by the Ministry in its year-end submission for a Management Board Order.

## 4.6 Write-off of Uncollectible Accounts

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

### Public Accounts Presentation

As explained in the Public Accounts' Summary of Significant Accounting Policies, the assets recorded in the financial statements are those resulting from financial claims on other parties which have been created by cash transactions. Accordingly, loans, advances and investments made by the Province are normally included as assets on the Statement of Financial Position. Accounts receivable, on the other hand, are not so included, since they are not the result of cash transactions.

For the most part, accounts receivable represent amounts owing to the Province under various revenue-producing activities. In addition, certain loans are included in memorandum accounts receivable rather than on the Statement of Financial Position. These loans have one or more of the following characteristics:

- either no specific security or security of limited value;
- no specific repayment terms;
- repayment is conditional only on future uncertain events.

These loans are considered to be in the nature of "recoverable grants" and are treated as expenditure when made. When repayments are received, they are treated as revenue. The major examples of loans in this category are the Ontario

Rental Construction Loan Program and the Non-Residential Rental Conversion Pilot Project.

A memorandum listing of the $1.1 billion in outstanding accounts receivable as at March 31, 1990 (1989 $.9 billion) is provided on pages 3-24 to 3-27 of Volume 1 of the Public Accounts.

Most write-offs do not affect the Net Debt of the Province as they relate to the memorandum accounts receivable. The major exceptions relate to the write-off of performance and term loans made by the Development Corporations from funds advanced by the Province. The advances are recorded as assets in the Statement of Financial Position. When performance loans are forgiven, or term loans are deemed uncollectible, the Corporations write off the loans, and monies appropriated by the Legislature for that purpose are used by the Corporations to repay their corresponding advances. The appropriated monies are treated as expenditures for Public Accounts purposes and thus affect the Province's Net Debt.

## Adherence to Policies and Procedures

During the year, we assessed, on a cross-ministry basis, whether write-offs were in accordance with Government policies and procedures. The key policies and procedures include those relating to the annual submission of recommended write-offs to the Ministry of Treasury and Economics; documentation of collection efforts and justification for the write-offs; and obtaining Orders in Council to authorize the write-offs.

We examined a sample of accounts receivable write-offs at five ministries - Agriculture and Food; Attorney General; Financial Institutions; Industry, Trade and Technology; Revenue. These ministries accounted for approximately 94 per cent of the $76 million written off by Ontario Government ministries in 1989.

We concluded that write-offs were in accordance with Government policies and procedures.

## 1990 Write-offs

A total of $90.7 million was written off in the 1990 fiscal year (1989 $75.9 million), as indicated on page 3-21 of Volume 1 of the Public Accounts. The two major write-offs for 1990 related to the following:

- The Ministry of Community and Social Services wrote off $39.3 million with respect to overpayments under the Family Benefits Act. During the 1990 fiscal year the ministry completed a comprehensive review of overpayments to identify those cases where: no payments had ever been made; administrative and collection costs would exceed the actual amount collectible; debtors were deceased, unable to repay or their whereabouts were unknown. This resulted in the write-off of over 25,000 overpayment cases dating back as far as 1972.

- A $19.1 million write-off by the Ministry of Revenue for unpaid taxes and GAINS overpayments. The major write-offs were as follows:

($ millions)

| | |
|---|---|
| Retail Sales Tax Act | 9.1 |
| Corporations Tax Act | 5.9 |

Other write-offs of uncollectible debts included the following:

The Ministry of Agriculture and Food wrote off $8.7 million in defaulted guaranteed bank loans under the Ontario Farm Adjustment Assistance Program. This represented the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets.

A $8.6 million write-off by the Ministry of Industry, Trade and Technology for uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful.

The Ministry of Financial Institutions wrote off $7.1 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off related to situations where: no judgement was issued and the debt is no longer considered collectible; payments were made from the Fund when unidentified hit and run drivers were involved; no payments were made on claims/judgements for five years.

Uncollectible accounts totalling $4.2 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. The majority of these write-offs involved accounts at least four years old.

The Ministry of Colleges and Universities wrote off $1.8 million for various student support programs. The major portion of this write-off pertained to loans made to students who were unable to pay or whose whereabouts were unknown.

## 4.7 Transfers Authorized by Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of monies from one item of the estimates of the Office of the Assembly to another item within the same Vote, the Provincial Auditor is required to make special mention of the transfer(s) in his report.

In respect of the 1989-90 expenditure estimates, the following transfers totalling $1,642,200 were made within Vote 201:

| | | | |
|---|---|---|---|
| From: | Item 2 | Office of the Clerk | $ 263,400 |
| | Item 5 | Members' Support Services | 1,378,800 |
| To: | Item 3 | Sessional Requirements | 995,900 |
| | Item 4 | Members' Indemnities | 369,400 |
| | Item 8 | Hansard | 263,400 |
| | Statutory | Contribution to Legislative Assembly Retirement Allowances Account, the Legislative Assembly Retirement Allowances Act | 13,500 |

CHAPTER

5

# OFFICE OF THE PROVINCIAL AUDITOR

# CHAPTER 5
# OFFICE OF THE PROVINCIAL AUDITOR

## 5.1 Independence of the Provincial Auditor

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects, including the general public.

To ensure such independence, the Legislature has enacted a separate act, the Audit Act, setting out the mandate of the Provincial Auditor.

The Provincial Auditor is not an employee of the Government. Rather, the Auditor is appointed an officer of the Legislative Assembly, and therefore is accountable to the public through their elected representatives.

Administratively, the Office of the Provincial Auditor is distinctly separate from any Government ministry or Crown agency, and its employees are not members of the public service. Moreover, for Office expenditures and staffing the Provincial Auditor is accountable to the Board of Internal Economy, an all-party legislative committee independent of the Government's administrative process.

In accordance with the Audit Act, a firm of chartered accountants has audited the Office's expenditures for the 1990 fiscal year. The audited statement of expenditure has been submitted to the Board of Internal Economy and tabled in the Assembly. It is reproduced in Section 5.10.

## 5.2 Office Goals

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.

## 5.3 Audit Responsibilities

Auditing in Government comprises the following areas:

- ministries, including transfer payment recipients;
- agencies of the Crown and Crown controlled corporations; and
- the Province's financial statements.

The participants in the audit process may include internal auditors, public accounting firms and the Provincial Auditor.

# Office of the Provincial Auditor

## The Provincial Auditor

*Primary Responsibility*

The primary responsibility of the Provincial Auditor is to audit the administration of Government programs and activities, as carried out by ministries and agencies of the Crown under Government policies.

However, the Office does not audit Government policies, or information contained in Cabinet documents used in policy deliberations or decisions. Accountability for policy matters is achieved through the Legislature continually monitoring and challenging Government policies and programs, by means of questions in the House and reviews of legislation and estimates of expenditures.

*MINISTRIES*

All ministries are subject to audit by the Provincial Auditor per section 9(1) of the Audit Act. These audits are primarily of a value for money nature. Annual attest audit work is also conducted to enable the Provincial Auditor to express an opinion on the Province's financial statements. A listing of the ministry audits covered by this Report appears in Exhibit 2.

*AGENCIES OF THE CROWN*

Section 9(2) of the Audit Act requires the Provincial Auditor to audit those agencies of the Crown which are not audited by another auditor. These agencies are listed in part (i) of Exhibit 3.

*Additional Audit Responsibilities*

Under section 16 of the Act, the Standing Committee on Public Accounts may direct the Provincial Auditor to examine any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

## Other Auditors

Internal auditors undertake audits of their respective ministries and agencies on behalf of management. Their audits focus on controls for the safeguarding of assets and the accuracy of essential financial information, and on controls concerned with value for money and accountability considerations. In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry/agency internal audit branches.

Section 9(2) of the Audit Act requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor, together with a copy of their findings and recommendations to management (management letter).

The agencies of the Crown and Crown controlled corporations audited by public accounting firms are listed in Exhibit 3 part (ii) and Exhibit 4, respectively.

## 5.4 Audit Activities

### Types of Audits

Audits undertaken by this Office are generally of three types: value for money, attest and compliance. All such audits are performed in accordance with generally accepted auditing standards, including those established for value for money auditing. Additionally, section 13 of the Audit Act enables the Provincial Auditor to perform inspection audits of transfer payment recipients. A brief description of each of these categories follows.

*Value for Money*

Value for money audits, covering various Government and Crown agency programs and activities, are designed to assess components of the management function related to economy, efficiency and procedures to measure effectiveness.

However, the Office does not evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery. These are ministry/agency management functions. Our responsibility is to assess the extent to which these functions have been carried out by management.

Additionally, the Provincial Auditor is not directly involved in the value for money auditing of transfer payment recipients. Such audits may be conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries/agencies. However, the Provincial Auditor may become indirectly involved when assessing the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well-managed.

*Attest*

The Office conducts attest (financial) audits on the annual financial statements of the Province and numerous Crown agencies. These audits are designed to attest to (express a professional opinion on) a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with the entity's stated accounting policies, and whether such policies are consistent with those used in the previous year.

*Compliance*

Compliance audit work is generally carried out in conjunction with our value for money and attest auditing. Compliance auditing assesses whether transactions and other aspects of ministry and agency operations are in compliance with legislative and administrative requirements.

*Inspection Audits of Transfer Payment Recipients*

Transfer payments, comprising over 70 per cent of Government expenditures, are payments for which the Province does not directly receive goods or services. The payments may be for specific purposes (such as the funding of school boards and universities), or they may be unconditional (such as per capita grants to municipalities).

Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of inspection audits, the audits are not normally value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater Government accountability, the Office in recent years has expanded inspection audit activity specifically to include the major recipients of transfer payments. The Office has undertaken special reviews of community colleges, universities, hospitals and school boards.

Audits of grant recipients may also be carried out by ministry internal auditors.

## Scheduling of Audit Activities

*Ministry Audits*

The Office conducts cyclical audits of major ministry programs with annual expenditures over $40 million. Such audits are primarily value for money oriented and report specifically on the administration of programs and activities by management. All major programs are considered for audit over a five-year period. In addition to these cyclical audits, smaller programs and activities may also be audited, particularly information systems.

In determining which programs to audit each year, the Office considers such factors as total expenditures, impact of the program on the public, diversity and complexity of operations, and audit activity by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister.

Ministry expenditure systems that are processed centrally are audited on a cross-ministry basis at least once during a five-year period. Ministry financial systems that are not centralized are audited on a ministry-by-ministry basis, as are the major revenue activities across Government.

*Agency Audits*

Agency of the Crown audits are conducted on an annual basis as required by legislation. While uneconomical practices or inefficiencies may be identified during regular attest/compliance audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

## 5.5 Ministry and Agency Reports

### Reporting Process

At the conclusion of each audit, a draft report is discussed with senior ministry/agency officials and, where necessary, revised to reflect matters raised in the discussion. A final report is issued to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. In all cases, a copy of the final report is sent to the Secretary of the Management Board of Cabinet. If requested by the ministry or agency, the Office will clarify or provide further information on any aspects of the final report.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted since our last Report.

## 5.6 Additional Reporting Matters

### Special Assignments

The Office's additional reporting responsibilities, pursuant to sections 16 and 17 of the Audit Act, relate to performing special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (September 1989 to August 1990) covered by this Report, the Office was involved with three special assignments.

At the request of the Minister of Tourism and Recreation, the Office undertook an in-depth review of the decision-making processes at Ontario Place Corporation including, in particular, a review of the Board of Directors' responsibilities and inputs regarding purchasing processes and contract management, decision-making authorities, and overall accountability related to the management of the Corporation's operations. We reported to the Minister in the fall of 1989.

The Standing Committee on Public Accounts requested the Provincial Auditor to conduct an audit of the process used to award a Ministry of Housing contract to a particular consultant. We reported to the Committee and in March 1990 the Committee presented their report to the Legislature.

Additionally, at the request of the Committee, the Office undertook an audit of the process used by the Ministry of Industry, Trade and Technology for the production of the book and video entitled "Ontario - Share the Vision." We reported to the Committee in the fall of 1990.

## 5.7 Annual Report

### Reporting Process

Under section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations.

The main body of the Annual Report consists of sections extracted from audit reports on ministries and agencies issued during the period to August 31, 1990. The Report may also include excerpts from reports on special assignments for a Minister, or from the reports to management prepared by the auditors of agencies of the Crown or Crown controlled corporations. The selections are made by senior management using criteria which include: monetary significance; public sensitivity or safety (environment, health care); and quality of administration (economy, efficiency, effectiveness). Also included is information which is perceived to be of interest to the Legislature/public.

The subsequent steps in the the Annual Report process are as follows:

- Selected report items and relevant ministry/agency responses received up to September 14 only (due to printing deadlines) are included in the Annual Report. Responses received after September 14 are forwarded to the Standing Committee on Public Accounts.
- The Committee receives the Report for review after it is tabled in the Assembly in the latter part of the year.
- The Committee then calls upon representatives of the ministries or agencies to discuss selected sections of the Report.

*Annual Report Briefing*

Each year an Annual Report briefing is held prior to the tabling of the Report. Arrangements are made for three separate and simultaneous lockups: one for members of the Legislature and their research staff, one for representatives of the media, and one for representatives of ministries, agencies of the Crown and central agencies. The lockups conclude with the Provincial Auditor answering the media's questions at a news conference.

## 5.8 Public Disclosure of Reports

### Annual Report

The Annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Committee on Public Accounts when the Annual Report is being reviewed.

### Other Reports

The Office does not submit to the Legislative Assembly or to the Standing Committee on Public Accounts, or otherwise make public, our audit reports on ministries, agencies or special assignments for a Minister, nor do we submit the reports to management which are prepared by the auditors of agencies or Crown controlled corporations. However, the Standing Committee on Public Accounts, or any other committee of the Assembly, may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

## Office Organization and Personnel

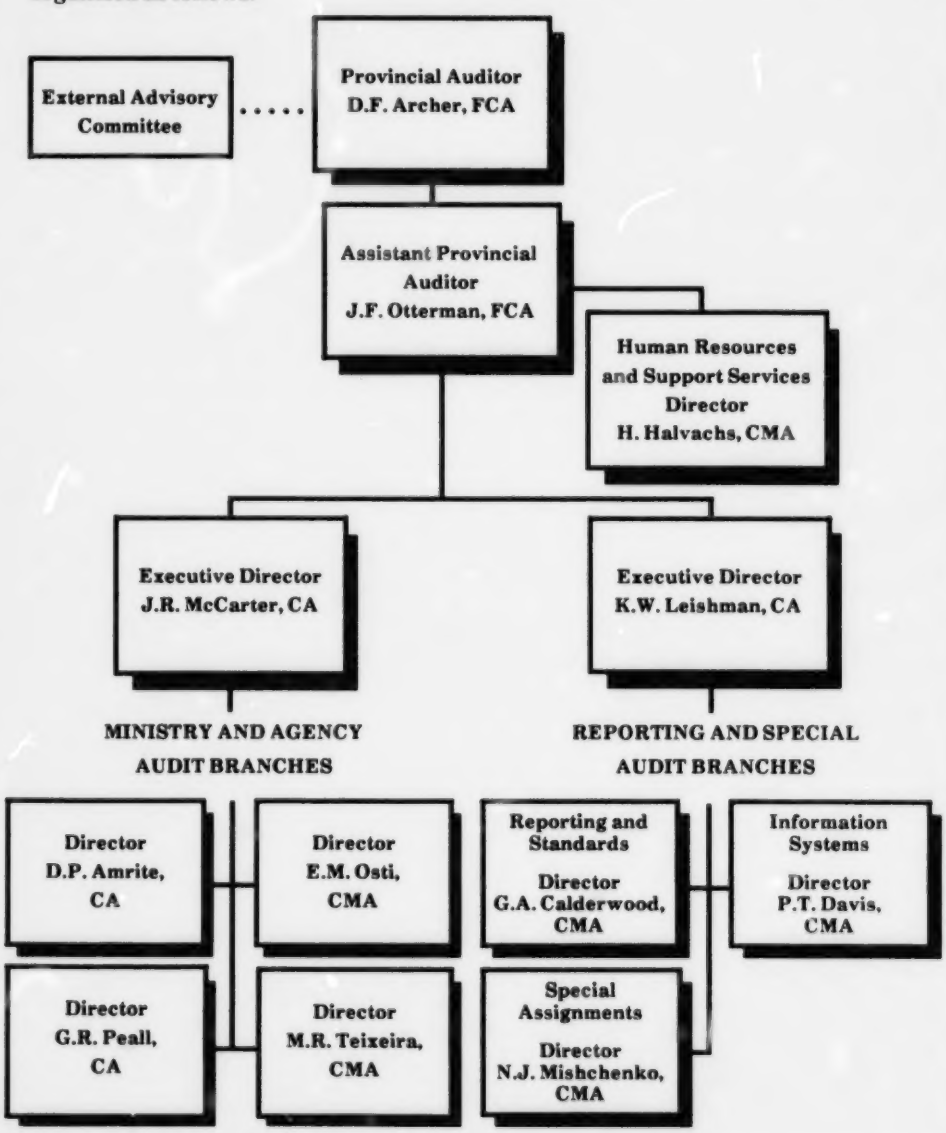
Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are tabled.

Draft reports for ministries and agencies are considered to be an integral part of the audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

The Office has not been designated as an institution to which the access provisions of the Freedom of Information and Protection of Privacy Act, 1987, apply.

### 5.9 Office Organization and Personnel

The staff complement of the Office at August 31, 1990 was 115 and the Office was organized as follows:



*Ministry and Agency Audit Branches*

These four audit branches are responsible for the cyclical audits of ministries and annual audits of agencies of the Crown.

*Reporting and Standards Branch*

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

*Information Systems Branch*

This branch's main responsibilities are information systems audits, including the provision of technical support and training to other branches.

*Special Assignments Branch*

This branch's main responsibilities are Office-initiated audits and reviews of Government-wide issues and systems, and special assignments requested by the Standing Committee on Public Accounts and by Ministers.

## Advisory Committee

The external Advisory Committee's terms of reference include assessment of the Annual Report and other publicly issued reports, periodic review of the Office's audit approach, analysis of the Office profile, and advice relating to sensitive audit issues. The Committee meets once or twice a year on the call of the Auditor.

The Committee comprises five members, all of whom combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of Government. The members are:

| | |
|---|---|
| Rendall Dick : | former Deputy Attorney General and Deputy Treasurer of Ontario; |
| Patrick Reid : | former Labour/Liberal MPP; past Chairman of the Public Accounts Committee; |
| Jack Stokes : | former New Democratic MPP and Speaker of the Legislative Assembly; |
| George Taylor : | former Conservative MPP and member of the Public Accounts Committee; former Solicitor General of Ontario; |
| Adam Zimmerman : | Chairman, MacMillan Bloedel; Chairman and Chief Executive Officer, Noranda Forest Inc. |

# Office Expenditure

5.10
**Office Expenditure**

The following is the 1990 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor**
**Statement of Expenditure**
**year ended March 31, 1990**

| | 1990 | | 1989 | |
|---|---|---|---|---|
| | Actual $ | Estimates $ | Actual $ | Estimates $ |
| Salaries and wages | 4,565,374 | 5,367,200 | 4,318,294 | 4,730,000 |
| Employee benefits | 583,274 | 665,000 | 561,052 | 725,000 |
| Transportation and communication | 251,074 | 277,000 | 240,226 | 233,000 |
| Services | 1,223,118 | 1,112,000 | 1,035,720 | 1,084,000 |
| Supplies and equipment | 120,152 | 116,000 | 123,524 | 105,000 |
| Transfer payment - Canadian Comprehensive Auditing Foundation | 48,000 | 48,000 | 46,000 | 46,000 |
| | 6,790,992 | 7,585,200 | 6,324,816 | 6,923,000 |
| Provincial Auditor's salary | 117,560 | 95,200 | 106,602 | 95,200 |
| | 6,908,552 | 7,680,400 | 6,431,418 | 7,018,200 |

**Notes:**

1. *Accounting Policy*

   The statement of expenditure has been prepared using the cash basis of accounting followed by the Province of Ontario with respect to the Public Accounts. The cash basis of accounting is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended.

2. *Estimates*

   The estimates shown above are those voted and approved, including supplementary estimates where applicable.

## Office of the Provincial Auditor

### Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1990. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1990 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario
June 19, 1990

ALLEN, MILES, FOX & JOHNSTON
CHARTERED ACCOUNTANTS

**5.11**
**Canadian Conference of Legislative Auditors**

The eighteenth annual meeting of the Canadian Conference of Legislative Auditors was held in St. John's from July 8 to 11, 1990. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- performance reporting by governments;
- audit of transfer payment recipients;
- audit planning processes; and
- special projects conducted on behalf of Public Accounts Committees.

CHAPTER

6

# THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

# CHAPTER 6
# THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

## 6.1 Appointment and Composition of the Committee

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on May 8, 1989. The activities of the Committee ended with the dissolution of the Thirty-fourth Parliament on July 30, 1990. At dissolution the membership of the Committee was as follows:

Edward Philip, Chairman, New Democrat
Gilles Pouliot, Vice-Chairman, New Democrat
Peter Adams, Liberal
William Ballinger, Liberal
Joseph Cordiano, Liberal
W. Donald Cousens, Progressive Conservative
Alvin Curling, Liberal
Laureano Leone, Liberal
Shelley Martel, New Democrat
George McCague, Progressive Conservative
Dianne Poole, Liberal

The Committee will be reconstituted upon commencement of the Thirty-fifth Parliament.

## 6.2 Role of the Committee

The role of the Committee, on behalf of the Assembly and ultimately the public, is to hold the Cabinet and the Government bureaucracy accountable for their administration.

In order to fulfil this role, the Committee is empowered to review and report to the Assembly its observations, opinions and recommendations on selected matters in the Report of the Provincial Auditor and the Public Accounts. These documents are referred to the Committee as soon as they are tabled.

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and, the reliability and appropriateness of information in the Public Accounts.

*Provincial Auditor's Role in the Process*

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of Government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

## 6.3 Committee Procedures and Operations

### General

The Committee meets on Thursday mornings when the Legislature is in session. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been in session. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chairman of the Board attend the meetings. They are usually accompanied by senior agency staff.

### Meetings Held

From September 1989 to July 30, 1990 the Committee held 16 public meetings, which included reviews of various sections of the 1989 Auditor's Report and two follow-up reviews stemming from the Committee's 1988 activity. Additionally, a number of in camera meetings were held, mainly to finalize Committee Reports to the Legislature.

### Motion Passed at Meeting

*Ontario - Share the Vision - Ministry of Industry, Trade and Technology*

On November 23, 1989 the Committee passed a motion requesting the Provincial Auditor to conduct an audit of the process used by the Ministry of Industry, Trade and Technology for the production of the book and video entitled "Ontario - Share the Vision." The audit terms of reference were to specifically address, but not be limited to, the amount paid for these items, whether the price was competitive with normal market rates, and whether the purchase was in line with normal Ministry practices for the purchase of such services.

### Additional Procedures

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;

- more frequent reports to the Legislature;
- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain firsthand knowledge of everyday working conditions in the field.

## 6.4 Other Committee Activities

### Canadian Council of Public Accounts Committees

The twelfth annual meeting of the Council was held in St. John's, Newfoundland from July 8 to 11, 1990. These annual meetings, normally attended by Public Accounts Committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information.

The annual meeting included a discussion of Guidelines for Public Accounts Committees in Canada, and a joint session with the Conference of Legislative Auditors.

## 6.5 Reports of the Committee

### General

As noted above, the Committee has adopted the practice of more frequent reporting to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

The Committee also issues additional reports on an annual or biennial basis which include summaries of previously issued reports. All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

### Completed Reports

The Committee issued three reports and an Annual Report between August 1989 and July 1990. These reports contained recommendations related to the following:

- Ministry of Housing
  - Process used to award a consulting contract
- Ministry of Health
  - Committee visits to psychiatric hospitals to assess the deficiencies identified in the 1987 Auditor's Report
- Government Advertising and Communications Expenditures
  - Regard for economy in acquiring goods and services; project evaluation; and, documentation of agency selection

- Ministry of the Environment
  - Controls over water and sewage treatment plants

- Ministry of Natural Resources
  - Committee visits to firefighting facilities re: fire prevention and detection; acquisition of equipment; and, utilization of equipment and staff

- Ministry of Transportation
  - Utilization of consultants and highway design staff
  - Municipal road subsidies

- Human Resources Secretariat
  - Administration of position classification and grievance procedures

- Ministry of Transportation
  - Operations of the Driver and Vehicle Registration Systems

- Office of the Provincial Auditor
  - The audit of Government agencies and amendments to the Audit Act

The Clerk of the Committee is responsible for following up the actions taken by ministries/agencies on the Committee's recommendations. Our Office liaises with the Clerk to ascertain the status of the recommendations, and would bring any significant matters arising therefrom to the attention of the Legislature in our Annual Reports.

## 6.6 Follow-up Report to the Committee

In its review of the collection of taxes on motor fuels and tobacco products, the Committee expressed concern regarding the significant incentive for innovative schemes to evade tax on tobacco products. Accordingly, one of the recommendations in its First 1989 Interim Report to the Legislative Assembly in July 1989 stated that:

> The Ministry of Revenue should continue to monitor the sale and consumption of tobacco products generally. The Ministry should report to the Provincial Auditor within a year on the progress made on this subject. The Provincial Auditor will report on this issue in the annual report.

Progress reports from the Ministry and our follow-up discussion with Ministry officials indicated that:

- Inspection and audit activity is being substantially increased. For example, the Ministry is expanding its audit coverage of tobacco wholesalers to 30 in the 1991 fiscal year, compared to only eight in 1989. Such audits verify that the proper amount of tax has been paid by wholesalers on their purchases from manufacturers/importers.

- The three major domestic tobacco manufacturers which account for over 90 per cent of the cigarettes manufactured in Canada are now audited on a three-year cycle. Production, inventory and sales figures for domestic and export markets are examined. The audits verify that tax exempt sales have proper supporting documentation and the amount of tax collected on domestic consumption is reasonable.

- Ontario tax marking of cigarette packages is being implemented to prevent domestic consumption of tax-free tobacco products designated for export. The marking system should be fully in place (down to the retail level) before December 1990.

- The Tobacco Tax Amendment Act, 1990, strengthened enforcement provisions by increasing the penalties for violations, and by incorporating new registration and bonding requirements for tobacco importers and exporters.

We are generally satisfied that when the initiatives taken by the Ministry are fully implemented, the sale and consumption of tobacco products will be more closely monitored, resulting in a more effective tax collection system.

# EXHIBITS

1. **Cross-Ministry and Special Audits.**
2. **Ministry Audits.**
3. **Agencies of the Crown, year ended March 31, 1990.**
4. **Crown Controlled Corporations, year ended March 31, 1990.**
5. **Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1990.**
6. **Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.**

## EXHIBIT 1

**Cross-Ministry and Special Audits**

*CROSS-MINISTRY AUDITS*

* . Government Collection Procedures and Accounts Receivable Write-Offs
- Agriculture and Food
- Attorney General
- Financial Institutions
- Government Services - Central Collection Service
- Industry, Trade and Technology
- Revenue

. Government Expenditure Controls
- Energy
- Industry, Trade and Technology
- Natural Resources
- Solicitor General
- Transportation

* . Government Vehicle Fleet Administration
- Agriculture and Food
- Community and Social Services
- Correctional Services
- Environment
- Labour
- Solicitor General
- Transportation

*SPECIAL AUDITS*

*Reviews for the Standing Committee on Public Accounts*

. Consulting contract at the Ministry of Housing

*Review for Minister of the Crown*

. Tourism and Recreation - Ontario Place Corporation

*Inspection Audits*

* . Centenary Hospital, Ministry of Health

* . Lakehead Board of Education, Ministry of Education

* . University of Toronto, Ministry of Colleges and Universities

* . York Region Roman Catholic Separate School Board, Ministry of Education

*These matters appear in Chapter 2 of this Report.

## EXHIBIT 2

**Ministry Audits**

*Community and Social Services*

* . Adults' Social Services Activity

- Homes for the Aged

* . Developmental Services (Adults and Children) Activity

*Correctional Services*

* . Information Systems Activity, EDP Audit

*Education*

* . Provincial Support for Elementary and Secondary Education Activity

*Government Services*

* . Computer and Telecommunication Services Program, Toronto Development Centre

. Information Systems Activity, EDP Audit

* . Capital Expenditures Activity

- Acquisition/Construction of Physical Assets

*Health*

* . Community Health Services Activity

- Home Care Assistance

* . Health Insurance and Benefits Activity

- Provider Services Branch

* . Information and Systems Division

* . Nursing Home Services Activity

*Intergovernmental Affairs*

* . Administration and Intergovernmental Relations Programs

*Natural Resources*

. Information Systems Activity, EDP Audit

*Solicitor General*

* . Ontario Provincial Police Activity

* These matters appear in Chapter 3 of this Report.

# EXHIBIT 3

**Agencies of the Crown**
**year ended March 31, 1990**

*(i) Agencies whose accounts are audited by the Provincial Auditor.*

* Accountant of the Supreme Court of Ontario, The
Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
* Algonquin Forestry Authority
Centennial Centre of Science and Technology, The
Commission on Election Finances
* Crop Insurance Commission of Ontario, The
* Eastern Ontario Development Corporation
Egg Fund Board (December 31)
Election Act, 1984, The, - Election Fees and Expenses
Environmental Compensation Corporation
* Farm Income Stabilization Commission of Ontario
Fund for Milk and Cream Producers, The, - The Ontario Farm Products Marketing Commission
Grain Financial Protection Board
IDEA Information Technology Fund Inc.
IDEA Innovation Fund Inc.
IDEA Research Investment Fund Inc.
* Innovation Ontario Corporation
Legal Aid Fund, Law Society of Upper Canada, The
* Liquor Control Board of Ontario
Liquor Licence Board of Ontario
Live Stock Financial Protection Board, The
* Niagara Parks Commission, The (October 31)
North Pickering Development Corporation
* Northern Ontario Development Corporation
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Information and Privacy Commissioner
Office of the Official Guardian
Office of the Ombudsman
Ontario Agricultural Museum
Ontario Cancer Treatment and Research Foundation, The
* Ontario Development Corporation
Ontario Educational Communications Authority, The
Ontario Film Development Corporation, The
Ontario Food Terminal Board
Ontario Heritage Foundation, The
* Ontario Housing Corporation (December 31)
Ontario Industrial Training Institute
* Ontario International Corporation
* Ontario Junior Farmer Establishment Loan Corporation, The
* Ontario Lottery Corporation
* Ontario Mortgage Corporation
* Ontario Municipal Improvement Corporation, The
* Ontario Northland Transportation Commission (December 31)
* Ontario Place Corporation
Ontario Racing Commission

## Exhibit 3

Ontario Stock Yards Board (June 30)
Ontario Telephone Development Corporation, The
Ontario Training Corporation
* Ontario Waste Management Corporation
Pension Commission of Ontario
Potato Financial Protection Board
Processing-Vegetable Financial Protection Board
Province of Ontario Council for the Arts
* Provincial Judges Benefits Fund
Public Complaints Commissioner
* Public Service Superannuation Fund
* Public Trustee of the Province of Ontario, The
Rent Review Hearings Board
Soldiers' Aid Commission
St. Clair Parkway Commission, The (December 31)
* Superannuation Adjustment Fund
Tobacco Producers' Assistance Fund

*(ii) Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.*

Board of Community Mental Health Clinic, Guelph
Clarke Institute of Psychiatry
Ontario Cancer Institute, The
Ontario Mental Health Foundation
St. Lawrence Parks Commission, The
* Teachers' Superannuation Fund (December 31)
* Toronto Area Transit Operating Authority
* Workers' Compensation Board (December 31)

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

* Audited financial statements reproduced in 1989-90 Public Accounts, the majority appearing in Volume 2.

## EXHIBIT 4

**Crown Controlled Corporations**
**year ended March 31, 1990**

*Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.*

Board of Funeral Services
Board of Governors of The Ontario Institute for Studies in Education, The
Board of Ophthalmic Dispensers
Board of Radiological Technicians
Corporation of the Improvement District of Cameron
Corporation of the Improvement District of Gauthier
Corporation of the Improvement District of Kingsford
Corporation of the Improvement District of Matachewan
Governing Board of Dental Technicians
Governing Board of Denture Therapists
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Moosonee Development Area Board
Ontario Board of Examiners in Psychology
* Ontario Centre for Advanced Manufacturing
* Ontario Centre for Resource Machinery Technology
Ontario Cream Producers' Marketing Board
* Ontario Energy Corporation
Ontario Historical Studies Series
* Ontario Hydro
Ontario Milk Marketing Board, The
Ontario Municipal Employees Retirement Board
Ontario Share and Deposit Insurance Corporation
Ontario Teachers' Pension Plan Board
* Ontario Transportation Development Corporation, The
Ontario Trillium Foundation
Ortech Corporation
Ottawa Congress Centre
Public Service Pension Board
Royal Ontario Museum, The
Science North
* Stadium Corporation of Ontario Limited
Thunder Bay Ski Jumps Limited
* Urban Transportation Development Corporation Limited

* Audited financial statements reproduced in 1989-90 Public Accounts, Volume 2.

## EXHIBIT 5

**Management Board Orders**
**Amounts Authorized and Expended Thereunder**
**year ended March 31, 1990**

| Ministry | Date of Order | Authorized | Expended |
|---|---|---|---|
| | | $ | $ |
| Agriculture and Food | Apr. 3, 1990 | 6,314,900 | 5,892,385 |
| | Apr. 10, 1990 | 135,600 | 98,946 |
| | | 6,450,500 | 5,991,331 |
| Attorney General | Jan. 9, 1990 | 3,841,300 | 3,423,527 |
| | Mar. 20, 1990 | 1,775,000 | 1,775,000 |
| | Apr. 10, 1990 | 12,784,900 | 11,155,591 |
| | | 18,401,200 | 16,354,118 |
| Cabinet Office | Apr. 10, 1990 | 372,100 | 318,233 |
| Citizenship | Apr. 10, 1990 | 836,700 | 127,900 |
| Colleges and Universities | Feb. 13, 1990 | 400,000 | 392,875 |
| | Mar. 20, 1990 | 8,100,000 | 6,374,928 |
| | Apr. 10, 1990 | 331,600 | 23,815 |
| | | 8,831,600 | 6,791,618 |
| Community and Social Services | Apr. 3, 1990 | 72,160,400 | 71,809,515 |
| | Apr. 10, 1990 | 6,088,000 | 5,541,836 |
| | | 78,248,400 | 77,351,351 |
| Consumer and Commercial Relations | Feb. 27, 1990 | 4,342,200 | 4,164,531 |
| | Apr. 10, 1990 | 469,300 | 291,843 |
| | | 4,811,500 | 4,456,374 |
| Correctional Services | Mar. 20, 1990 | 20,713,000 | 20,659,700 |
| | Apr. 10, 1990 | 3,495,300 | 3,007,624 |
| | | 24,208,300 | 23,667,324 |

## Management Board Orders

| Ministry | Date of Order | Authorized | Expended |
|---|---|---|---|
| | | $ | $ |
| Culture and Communications | Apr. 10, 1990 | 3,482,000 | 3,184,355 |
| Office Responsible for Disabled Persons | Apr. 3, 1990 | 14,000 | - |
| Education | Mar. 20, 1990 | 2,709,000 | 2,471,019 |
| | Mar. 27, 1990 | 8,720,000 | 2,179,985 |
| | Apr. 10, 1990 | 1,350,900 | 829,218 |
| | Apr. 24, 1990 | 110,500 | - |
| | | 12,890,400 | 5,480,222 |
| Energy | Apr. 10, 1990 | 90,300 | - |
| Environment | Mar. 20, 1990 | 3,273,400 | 3,270,837 |
| | Apr. 3, 1990 | 360,000 | 354,572 |
| | Apr. 10, 1990 | 6,476,300 | 5,617,244 |
| | | 10,109,700 | 9,242,653 |
| Financial Institutions | Feb. 20, 1990 | 1,240,400 | 1,110,898 |
| Government Services | Mar. 20, 1990 | 3,697,900 | 3,492,807 |
| | Apr. 10, 1990 | 88,600 | 7,830 |
| | | 3,786,500 | 3,500,637 |
| Health | Mar. 20, 1990 | 3,297,800 | 3,264,537 |
| | Mar. 27, 1990 | 347,080,800 | 347,032,852 |
| | Apr. 10, 1990 | 62,842,500 | 55,493,221 |
| | | 413,221,100 | 405,790,610 |
| Housing | Apr. 10, 1990 | 9,304,600 | 7,655,240 |
| Industry, Trade and Technology | Mar. 27, 1990 | 3,080,400 | 2,434,695 |

## Exhibit 5

| Ministry | Date of Order | Authorized | Expended |
|---|---|---|---|
| | | $ | $ |
| Intergovernmental Affairs | Feb. 6, 1990 | 500,000 | 198,162 |
| Labour | Mar. 27, 1990 | 453,400 | 439,367 |
| | Apr. 10, 1990 | 2,058,900 | 1,477,721 |
| | | 2,512,300 | 1,917,088 |
| Office of the Lieutenant Governor | Mar. 20, 1990 | 60,200 | 51,260 |
| Management Board of Cabinet | Apr. 10, 1990 | 2,833,900 | 1,780,536 |
| Municipal Affairs | Apr. 10, 1990 | 7,284,500 | 6,312,580 |
| Natural Resources | Aug. 1, 1989 | 10,000,000 | 10,000,000 |
| | Nov. 28, 1989 | 4,000,000 | 3,999,799 |
| | Apr. 3, 1990 | 9,022,400 | 8,943,900 |
| | Apr. 10, 1990 | 386,100 | 266,168 |
| | | 23,408,500 | 23,209,867 |
| Northern Development and Mines | Apr. 10, 1990 | 491,400 | 361,065 |
| Revenue | Nov. 14, 1989 | 5,900,000 | 5,900,000 |
| | Mar. 20, 1990 | 10,289,700 | 10,066,770 |
| | Apr. 3, 1990 | 391,200 | 178,766 |
| | | 16,580,900 | 16,145,536 |
| Office Responsible for Senior Citizens Affairs | Apr. 10, 1990 | 33,000 | - |

## Management Board Orders

| Ministry | Date of Order | Authorized | Expended |
|---|---|---|---|
| | | $ | $ |
| Solicitor General | Dec. 19, 1989 | 600,000 | 589,232 |
| | Feb. 20, 1990 | 2,000,000 | 2,000,000 |
| | Mar. 20, 1990 | 24,040,600 | 23,571,257 |
| | Apr. 3, 1990 | 411,700 | 135,656 |
| | | 27,052,300 | 26,296,145 |
| Tourism and Recreation | Apr. 3, 1990 | 3,156,600 | 3,030,516 |
| | Apr. 10, 1990 | 34,400 | 28,631 |
| | | 3,191,000 | 3,059,147 |
| Transportation | Jan. 16, 1990 | 575,000 | 575,000 |
| | Jan. 23, 1990 | 13,700,000 | 13,700,000 |
| | Feb. 27, 1990 | 1,330,000 | 1,191,722 |
| | Mar. 27, 1990 | 34,200,000 | 33,116,507 |
| | Apr. 10, 1990 | 1,176,000 | 541,228 |
| | | 50,981,000 | 49,124,457 |
| Treasury and Economics | Mar. 6, 1990 | 1,339,600 | 697,487 |
| Office Responsible for Women's Issues | Mar. 6, 1990 | 347,200 | 347,200 |
| | Apr. 10, 1990 | 732,300 | 30,445 |
| | | 1,079,500 | 377,645 |
| **Total Management Board Orders** | | 736,727,800 | 702,988,534 |

## EXHIBIT 6

**Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports**
(See Note)

| Report | Section | Description/Status |
|---|---|---|
| | | **RESOLVED AS AT DATE OF PREPARATION OF 1990 AUDITOR'S REPORT** |
| | | *GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS* |
| 1988 | 2.4 | Observations on government advertising and communications expenditures.<br>- In process of implementation. |
| | | *MINISTRIES* |
| | | **Community and Social Services** |
| 1988 | 3.3 | Unsatisfactory monitoring procedures, General Welfare Assistance Program.<br>- In process of implementation. |
| | | **Culture and Communications** |
| 1988 | 3.5 | Better monitoring required, Community Facilities Improvement Program.<br>- In process of implementation. |
| | | **Environment** |
| 1988 | 3.7 | Weak controls over water and sewage treatment plants.<br>- In process of implementation. |
| | | **Health** |
| 1987 | 4.8 | Weak procedures and controls, Health Insurance Program.<br>- In process of implementation. |
| 1988 | 3.9 | Concerns over hospital funding and performance monitoring.<br>- Partially implemented. |
| | | **Human Resources Secretariat** |
| 1989 | 3.10 | Classification system poorly maintained.<br>- In process of implementation. |

## Status of Previous Annual Report Recommendations

| Report | Section | Description/Status |
|---|---|---|
| | | **Municipal Affairs** |
| 1988 | 3.10 | Inflexible allocation formulae warrant reassessment, Unconditional Grants.<br>- Substantially implemented. |
| | | **Natural Resources** |
| 1988 | 3.11 | Improved cost controls and resources monitoring required, Forest Firefighting.<br>- In process of implementation. |
| | | **Transportation** |
| 1988 | 3.13 | Improved efficiency required, Design Activity.<br>- In process of implementation. |
| 1988 | 3.14 | Opportunities for cost reductions, Municipal Roads Program.<br>- In process of implementation. |
| | | *CROWN AGENCIES* |
| | | **Alcoholism and Drug Addiction Research Foundation** |
| 1989 | 3.15 | Significant deficiencies in consulting arrangement.<br>- Substantially implemented. |
| | | **The McMichael Canadian Collection** |
| 1988 | 4.3 | Acquisitions, safeguards and other matters.<br>- Implemented. |
| | | **Ontario Northland Transportation Commission** |
| 1988 | 4.5 | Potential for cost savings.<br>- Substantially implemented. |
| | | **TO BE REVIEWED IN SUBSEQUENT YEARS*** |
| | | *GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS* |
| 1989 | 2.5 | Purchasing of government consulting services. |
| 1989 | 2.6 | Government overtime payments. |
| 1989 | 2.7 | Government travel expenditures. |

## Exhibit 6

| Report | Section | Description/Status |
|---|---|---|
| | | *MINISTRIES* |
| | | **Attorney General** |
| 1989 | 3.2 | Poor utilization and monitoring of district courtrooms and staff. |
| | | **Community and Social Services** |
| 1989 | 3.3 | Inadequate monitoring of child care payments, Children's Services Activity. |
| 1989 | 3.4 | Matters of concern, Children's Aid Societies. |
| | | **Correctional Services** |
| 1989 | 3.5 | Impediments to probation enforcement and effective rehabilitation, Community Services Activity. |
| 1989 | 3.6 | Parole decisions reasonably effective, Ontario Board of Parole. |
| | | **Government Services** |
| 1989 | 3.7 | Improved practices required, management of leased accommodation. |
| 1989 | 3.8 | Repair procedures not followed and services not acquired economically. |
| | | **Health** |
| 1989 | 3.9 | Deficiencies in funding and monitoring of operations, Land Ambulance Services. |
| | | **Natural Resources** |
| 1989 | 3.11 | Better controls and enforcement required, Fisheries and Wildlife Management Activities. |
| | | **Revenue** |
| 1989 | 3.12 | Observations on audit and revenue control systems, Retail Sales Tax Branch. |
| | | **Transportation** |
| 1989 | 3.13 | Deficiencies noted in Driver and Vehicle Registration Systems. |
| 1989 | 3.14 | Opportunities for improvement - Examination, Inspection and Enforcement Activity. |

# Status of Previous Annual Report Recommendations

| Report | Section | Description/Status |
|---|---|---|
| | | *CROWN AGENCIES* |
| | | **The Royal Ontario Museum** |
| 1988 | 4.7 | Improved controls and data security recommended. |

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:

(a) considered unresolved per Exhibit 6 of the 1989 Auditor's Report.
(b) contained in the body of the 1989 Auditor's Report.

* The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.